CREATING VALUE

this is canadian hunter

1998
ANNUAL
REPORT

canadian hunter: a natural gas story

INSIDE CANADIAN HUNTER


canadian hunter
Elmworth-Wapiti-Noel
NORTH BUSINESS UNIT
SOUTH CENTRAL BUSINESS
canadian hunte


canadian
hunter
canadian
hunter

CANADIAN HUNTER EXPLORATION LTD. IS WELL POSITIONED WITHIN THE CANADIAN OIL AND NATURAL GAS INDUSTRY AS IT EMBARKS ON A NEW COURSE AS A PUBLIC COMPANY ■ CANADIAN HUNTER IS PRIMARILY A NATURAL GAS COMPANY AND IS A TOP QUARTILE PERFORMER AMONG BOTH PRIVATE AND PUBLIC COMPANIES ■ CANADIAN HUNTER BECAME A PUBLICLY-TRADED COMPANY EFFECTIVE DECEMBER 31, 1998 WHEN NORANDA INC. DISTRIBUTED ITS 100 PERCENT INVESTMENT IN CANADIAN HUNTER TO ITS COMMON SHAREHOLDERS ■ MOVING FORWARD, THE MANAGEMENT TEAM HAS SET CHALLENGING TARGETS FOR INCREASING VALUE ■ THE COMPANY WILL CONTINUE TO INVEST IN ITS THREE CORE AREAS IN WESTERN CANADA AND HAS IDENTIFIED THREE NEW INITIATIVES

CANADIAN HUNTER HAS A HIGH QUALITY ASSET BASE TO DELIVER LONG-

1 DEEP BASIN BUSINESS UNIT

Elmworth-Wapiti-Noel

2 NORTH BUSINESS UNIT

Brassey-Ring Border-Liard-Nig/Gundy

3 SOUTH CENTRAL BUSINESS UNIT

Claresholm-Chedderville-Kaybob-Lethbridge

TERM VALUE AND A STRATEGY TO CREATE, BUILD AND PRESERVE VALUE

TO HELP ACHIEVE ITS GROWTH TARGETS : THE CREATION OF A VIABLE MIDSTREAM BUSINESS UTILIZING THE COMPANY'S EXTENSIVE INFRASTRUCTURE, EXPANSION INTO A NEW CORE AREA IN WESTERN CANADA AND ENTRY INTO LOW-RISK INTERNATIONAL ACTIVITY ■ BASED ON THE COMPANY'S 26 YEAR HISTORY OF CREATING VALUE, ITS WELL CAPITALIZED BALANCE SHEET AND A GROWTH-ORIENTED STRATEGIC PLAN, CANADIAN HUNTER IS POSITIONED TO TAKE ITS SUCCESS AS A PRIVATE COMPANY FORWARD INTO THE PUBLIC MARKETS.

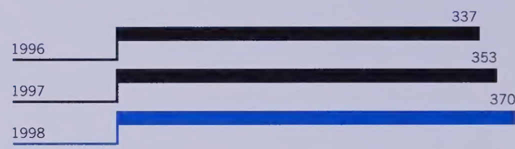
canadian hunter: highlights and achievements

FINANCIAL AND OPERATING SUMMARY

PRODUCTION

Production growth over the three years was modest as a result of $200 million in property dispositions in 1996 and 1997. Natural gas and natural gas liquids comprise 93 percent of total production.

Production
(mmcfe/d)



REVENUE

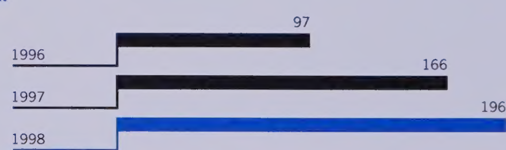
Steady increases in revenue over the past three years have been driven by strong natural gas prices combined with a successful exploration and exploitation program.

Gross Revenue
($ millions)

CAPITAL EXPENDITURES

Canadian Hunter has consistently increased its investment in exploration and development activities, and funded its capital program mainly from internally generated cash flow.

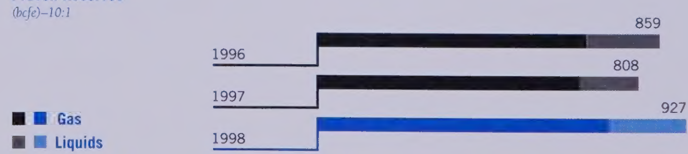
Exploration and Development Capital Expenditures
($ millions)



PROVEN RESERVES

Property dispositions over the past three years affected reserves growth, particularly in 1997, although Canadian Hunter increased proven reserves by 15 percent in 1998.

Proven Reserves
(bcfe)–10:1



Highlights

Canadian Hunter recorded increases in production, reserves, land and drilling activity in 1998. Cash flow and earnings dropped modestly as a result of one-time costs associated with becoming a public company.

	1998	1997	% Change
Financial *(Pro-forma) ($ millions)*			
Gross production revenue	*266.5*	260.4	2
Cash flow from operations	*156.2*	161.1	(3)
Net income	*26.7*	29.0	(8)
Capital expenditures (exploration and development)	*195.8*	166.3	18
Long term debt	*150.0*	125.0	20
Common shares outstanding *(thousands)*	*59,564*	59,564	–
Operating			
Production			
Natural gas *(mmcf/d)*	*288*	272	6
Crude oil and liquids *(bbls/d)*	*8,238*	8,077	2
Total *(mmcfe/d)*	*370*	353	5
Proven reserves			
Natural gas *(bcf)*	*732*	658	11
Crude oil and liquids *(mbbls)*	*19,487*	14,969	30
Total proven *(bcfe)*	*927*	808	15
Undeveloped land holdings *(thousands of net acres)*	*1,313*	926	42
Drilling activity *(total wells-gross)*			
Exploration	*88*	68	29
Development	*81*	71	14
Total	*169*	139	22

Chairman's Report to Shareholders Two notable energy events transpired in the spring of 1973: the Organization of Petroleum Exporting Countries started to exert their influence on world oil prices and, more to the point of our affairs, Canadian Hunter Exploration Ltd. was born.

After an extensive search for financial backing, John Masters and I were fortunate to secure the corporate support of Noranda Inc. Thus began a 26-year relationship with Canada's premiere natural resource company. We owe a deep gratitude to our many friends and associates at Noranda who, over the past 26 years, have provided critical support and many valuable contributions which helped to build the successful Canadian Hunter that we have today.

From our early reconnaisance of western Canada for exploration opportunities, and our resulting success with the discovery of the giant Deep Basin gas field, to Canadian Hunter's many successful exploration and development programs over the past five years, the Canadian Hunter experience has been a very positive one for all of the Company's stakeholders. At the end of 1998, the next chapter of Canadian Hunter was opened as we became a publicly-traded company. We look forward to continuing the growth of Canadian Hunter on behalf of our shareholders.

The past year saw the completion of a successful transition in management from one led by founders to a very strong team led by our new CEO, Steve Savidant. This team will continue the expansion and growth of this important western Canadian natural gas producer. We have assembled a strong and experienced Board of Directors which will oversee the operations of the Company on behalf of the shareholders and contribute ideas and advice on the building of value for the Company.

Canadian Hunter is positioned for continued success based on these underlying realities: the Company is in a growth business, with excellent assets and a strong management team and organization.

On a personal note, I should record the great pleasure a founder has in watching the initial creation – which survived quite successfully the turmoils of its first 26 years – to be so poised, confident and capable as it continues its growth as a public company.

Jim Gray

Chairman, Canadian Hunter

The Executive Management Team

At the executive level Canadian Hunter has positioned a multi-disciplinary team of professionals with solid technical expertise combined with years of hands on management experience at Canadian Hunter. The emphasis on balancing strong technical and commercial skills extends from this group throughout the organization.

Back left: Steve Savidant, President and Chief Executive Officer
Back right: Steve Soules, Vice President, Finance and Chief Financial Officer
Front left: Murray Lueke, Vice President, Engineering
Front right: Mike Downey, Vice President, Exploration and Production and Chief Operating Officer

An Experienced Operations Team

CANADIAN HUNTER OPERATES 85 PERCENT OF ITS PRODUCTION AND HAS MAINTAINED ITS REPUTATION AS A LOW COST OPERATOR. WITH OPERATING COSTS AT $0.26 PER THOUSAND CUBIC FEET EQUIVALENT, CANADIAN HUNTER IS IN THE BEST QUARTILE OF COMPANIES IN THIS KEY CATEGORY OF PERFORMANCE MEASUREMENT.

MESSAGE FROM THE PRESIDENT

It is not often that a company with 26 years of history, a high quality asset base, an experienced team of people and a strong balance sheet can emerge as a new public company, yet this is the opportunity facing Canadian Hunter.

For Our Shareholders

CREATING VALUE

CANADIAN HUNTER'S TRACK RECORD OF PERFORMANCE, COMBINED WITH OUR STRATEGY FOR CREATING VALUE, IS THE STORY OF THIS ANNUAL REPORT.

Canadian Hunter is a natural gas company. Over 90 percent of our production and reserve base is natural gas and natural gas liquids. This is not a recent emphasis; exploration and exploitation of natural gas reservoirs has been our focus for the 26 years we have been in business. As a result, we believe we understand natural gas: how to find it, produce it, move it and market it. Based on our past performance and with the increasing demand in North America for a cleaner burning fuel, this emphasis will continue. We remain focused on adding value by pursuing exploration, exploitation and strategic acquisitions primarily of natural gas in western Canada. While our fundamental strategy for adding new natural gas reserves remains through the drill bit, we also believe that, given appropriate market conditions, there will be opportunities to acquire assets which are accretive to value.

Public company status is in many ways the fourth phase of our evolution as a company. Our genesis was characterized by entrepreneurial energy and geological opportunity. In the mid-1970s a remarkable team of Canadian Hunter geoscientists discovered the Deep Basin – one of the largest gas fields in North America – and that became the foundation of Canadian Hunter. Through the 1980s, we extended the Elmworth discovery across the Deep Basin and attempted to replicate this success elsewhere. In the 1990s we realized that "elephant hunting" was not a sustainable strategy for Canadian Hunter and we changed course. We determined that the best strategy was to build on our strengths. We have a strong asset base with substantial long-term production capability and geological potential. We have attracted a well-trained and dedicated team of people reflecting an effective balance of technical and commercial skills. This combination of assets and people is the foundation for our value-adding growth as a public company.

Canadian Hunter today is focused on three core areas in western Canada that produce close to 300 million cubic feet per day of natural gas and over 8,000 barrels per day of crude oil and natural gas liquids. Within these areas, we have over one million net acres of undeveloped land. Most critically, however, we have a team of professionals actively pursuing opportunities for value creation that lie under this extensive land base and we have the funding to capture those opportunities.

The Deep Basin Business Unit accounts for two-thirds of our natural gas production and almost half of our liquids production. Over the past three years, we have replaced over 100 percent of the area's production at a very competitive cost. The Deep Basin is important to sustaining our production levels and cash flow and for funding other exploration initiatives as it is a net cash flow generator. While exploration continues actively in the Deep Basin, excellent opportunities also exist for optimizing value through exploitation. In addition, we have an extensive midstream infrastructure of gathering and transportation pipelines and processing plants, and we are actively pursuing new opportunities for increasing utilization and revenues from these midstream assets.

The North Business Unit is a growth area with a strong land position and a variety of exploration and development targets. While exploration is limited to a winter-only drilling program, Canadian Hunter has generated considerable reserve additions and the area is targeted for substantial growth. Our drilling program replaced an average of over 200 percent of annual production from this area in each of the last three years.

The South Central Business Unit provides a mix of low, medium and higher risk drilling opportunities and is the focus for near-term production growth and low cost reserve additions. In 1998, increased drilling led to a reserve replacement ratio of over 400 percent of production from this area.

Creating Value

EXPLORATION AND ACQUISITIONS

OUR FOCUS ON TECHNICAL EVALUATION AND RIGOROUS ECONOMIC ANALYSIS FOR EXPLORATION HAS BEEN KEY TO OUR SUCCESS IN ADDING LOW COST RESERVES. ACQUISITIONS MUST MEET THE SAME TECHNICAL AND ECONOMIC CRITERIA AND STRATEGICALLY "FIT" WITH EXISTING ASSETS.

The Elmworth Plant in Northwest Alberta

Canadian Hunter has been drilling wells, developing reserves and operating plants in western Canada for over 20 years. This knowledge base is a critical component in the Company's efficient, low cost operating structure.

Canadian Hunter is a top quartile performer when ranked against both public and private companies. Over the past three years, we have consistently added proven reserves at a low cost. We have a strong production, reserve and infrastructure asset base in western Canada. Immediate prospects for increasing the Company's value are found in our undeveloped land base where we have high working interests and a large inventory of prospects. We are a low cost producer, operating over 85 percent of our production. Through our marketing activities, we have been successful at selling natural gas across North America at premium prices. The combination of all these factors has contributed to our growth and profitability and will be critical as we continue to build shareholder value. In fact, as a public company, we believe our intense focus on real value is one of our key competitive advantages.

Canadian Hunter is a value-driven company. Every aspect of our operations is rooted in value – whether creating, building or preserving value. Our key objectives are to increase net asset value per share while achieving a superior return on equity. Our fundamental business philosophy is that technical and economic evaluations go hand-in-hand, and that projects must demonstrate good potential for value creation based on pragmatic risk assessments.

We apply this philosophy to every activity, from the conception of exploration plays through to the marketing of our products. As a private company, we became a sophisticated cycle player with a track record of capturing opportunities in the cyclical peaks and valleys. We typically buy assets when the industry is selling, or sell non-core assets when purchase prices appear to be generous. We aggressively manage our asset base and, during transitory periods of low natural gas prices for example, we have responded by buying bargain-priced gas on the spot market to meet contract obligations while shutting-in Canadian Hunter's own natural gas wells, allowing us to capture the spread between the low spot market prices and higher priced contracts. While continual growth in production and cash flow are traditionally viewed as key proxies of a company's worth, we look to the full cycle value of our properties. We are willing to forego, in certain circumstances, short-term production or cash flow growth in favour of building or preserving value for our shareholders over the medium and longer term.

Building Value

EXPLOITATION, MARKETING, MIDSTREAM

WE ALLOCATE CLOSE TO 50 PERCENT OF CAPITAL TO EXPLOITING OUR ASSET BASE. MARKETING OUR PRODUCTION PROVIDES FLEXIBILITY TO ACCESS VARIOUS MARKETS. OUR MIDSTREAM BUSINESS IS AN INITIATIVE TO CAPTURE ADDITIONAL VALUE FROM EXISTING ASSETS.

Preserving Value

OPERATING SYSTEMS AND FISCAL CONTROLS

OUR FOCUS ON SAFE, EFFICIENT AND ENVIRONMENTALLY RESPONSIBLE OPERATIONS ENHANCES OUR ABILITY TO CAPTURE THE FULL-CYCLE ECONOMIC VALUE OF OUR ASSETS AS THEY PRODUCE OVER THE LONGER TERM. MONITORING THE FISCAL AND OPERATING PERFORMANCE OF OUR ASSETS IS CRITICAL TO OUR DECISION MAKING.

During 1998 Canadian Hunter spent $196 million exploring and exploiting reserves of primarily natural gas in our three core areas. We measured our results from these activities using three performance measures. Our finding and development costs were at $0.79 per thousand cubic feet equivalent which is at the top end of our target range of $0.70 to $0.80. Through our drilling program we replaced 183 percent of our production while investing only 125 percent of our cash flow; a healthy ratio. Our operating netback on natural gas sold was $1.42 per thousand cubic feet, a function of our low operating costs and successful marketing efforts.

In 1999 we currently expect to spend $215 million for exploration and development, primarily in our three existing business units. We will also be looking at three new initiatives during the year: creating a new core area in western Canada, capturing new opportunities to exploit our midstream infrastructure and entering international exploitation in a modest way.

Within the next year, the Company plans to invest in at least one new area in western Canada with the goal of building a new core area. A reconnaissance of western Canada is underway to narrow down investment options based on geological potential and commercial opportunity.

Our second new initiative is to optimize the value of our midstream asset base in western Canada. Our extensive system of gas gathering pipelines and processing plants provides clear competitive advantages for generating fee revenue from the transportation and processing of third party gas and natural gas liquids.

Our third new growth initiative is in the international arena. By expanding internationally, we are seeking diversification by pursuing development of a new core area in a less competitive environment than western Canada. To gain entry, we are seeking partnerships with companies with well established international operations. To minimize the risk, we are initially pursuing exploitation rather than exploration. Risk is also being managed through targeting areas with lower political risk, stable currency policies and opportunities to have production onstream quickly. Our target is to have about 20 percent of the Company's net asset value in international areas within five years. Our initial focus is on South America and we have identified potential in both Argentina and Bolivia.

Measuring Value

KEY OBJECTIVES AND PERFORMANCE DRIVERS

OUR PERFORMANCE AS A COMPANY, AS BUSINESS TEAMS AND AS INDIVIDUALS IS MEASURED BY OUR ABILITY TO INCREASE NET ASSET VALUE PER SHARE; TO ACHIEVE A SUPERIOR RETURN ON EQUITY; TO SUSTAIN ECONOMIC FINDING AND DEVELOPMENT COSTS; TO MAINTAIN A HIGH RESERVE REPLACEMENT RATIO; AND TO EXCEED AVERAGE INDUSTRY NATURAL GAS NETBACKS.

For Canadian Hunter, 1999 will be a year of challenges and opportunities. We are entering the public markets at a time when prolonged low crude oil prices have resulted in substantially reduced cash flow for the industry and depressed asset value for many producing companies. Our company is well positioned to capture value by applying our technical ability to identify economic opportunity and take advantage of our strong balance sheet. Moreover, cash flow continues to be strong given our leverage to natural gas and supports an expanding capital program of exploration, exploitation and acquisition.

With our business plan in place, we have charted a clear course to increase the value of the Company and are optimistic as to achieving results. As we move forward, our day-to-day operations will not change. We will remain focused on creating, building on and preserving the value of our asset base in western Canada. We will continue to play the industry cycles to capture growth opportunities. Our strong financial position will provide a sound foundation as we pursue new initiatives in western Canada and internationally.

The same talented team of employees who have been responsible for Canadian Hunter's success over the past several years remains in place. We are pleased that Canadian Hunter has attracted an experienced Board of Directors to advise and guide the Company. I look forward to the challenges and the opportunities that lie ahead for Canadian Hunter.

Stephen J. Savidant

President and Chief Executive Officer

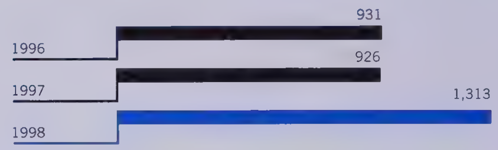
February 28, 1999

WESTERN CANADIAN ASSET REVIEW

LAND

Net undeveloped land holdings reached 1.3 million acres in 1998, up 387,000 acres from 1997, with land acquisitions spread roughly equally across Business Units.

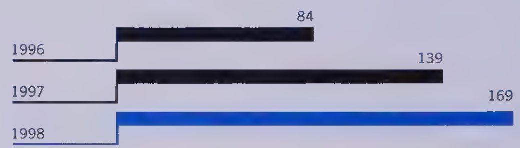
Net Undeveloped Land Holdings
(thousands of net acres)



DRILLING

Canadian Hunter maintains a balance between exploration and development drilling in its program. In 1998, 88 wells were exploratory and 81 wells were development, with an overall success rate of 82 percent.

Drilling Activity
(total wells – gross)



NATURAL GAS PRODUCTION

Average natural gas production increased by 34 million cubic feet per day between 1996 and 1998 despite property sales which reduced 1998 production by 30 million cubic feet per day.

Natural Gas Production
(mmcf/d)

OIL AND LIQUIDS PRODUCTION

Crude oil production dropped in 1998 while natural gas liquids production grew, reflecting the bias to natural gas in our asset base. Natural gas liquids represent 69 percent of total liquids production.

Crude Oil and Natural Gas Liquids Production
(bbls/d)

Recent studies have indicated the Western Canadian Sedimentary Basin remains highly prospective for substantial natural gas discoveries. Exploration and development in the basin over the past several years has concentrated on many of the shallower, less prolific gas reservoirs in east central Alberta. Industry focus has recently returned to western Alberta in search of potentially larger gas discoveries. The most active area today is a geological fairway roughly bounded by the Alberta foothills and the fifth meridian.

Canadian Hunter has been working within this fairway for 26 years. Our technical staff understands how to exploit complex geology and stacked targets as a result of our experience in the Deep Basin. This knowledge has been applied to programs in other core areas as Canadian Hunter extended its activities within this region.

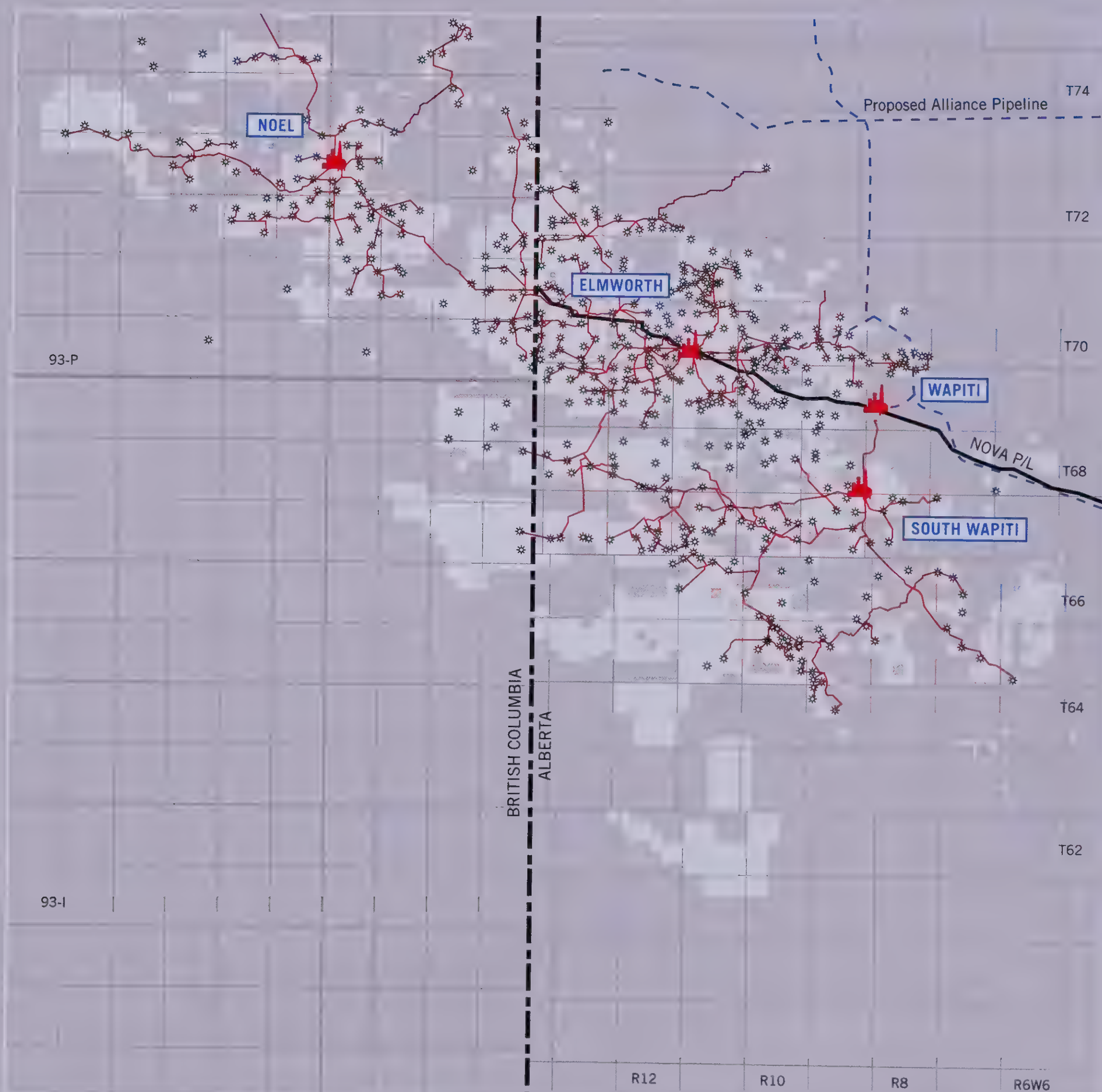
Today, Canadian Hunter has a base of developed and undeveloped land from the U.S. border to the northern borders of Alberta and British Columbia. Canadian Hunter's expertise and innovation contribute to its low finding and development and operating costs, high replacement ratio and its ability to identify and pursue opportunities in this fairway.

1.

DEEP BASIN

Deep Basin Production
(mmcfe/d)

*Sold properties producing 10 mmcfe/d

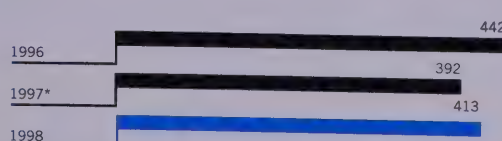


Canadian Hunter land
Canadian Hunter gathering system

LEGEND

Deep Basin Proven Reserves
(bcfe)

*Sold properties with 51 bcfe of reserves



THE DEEP BASIN IS A PROLIFIC 5000-SQUARE-MILE, GAS-SATURATED AREA STRADDLING THE BRITISH COLUMBIA/ALBERTA BORDER WEST OF THE CITY OF GRANDE PRAIRIE ■ THIS SIGNIFICANT REGION ACCOUNTS FOR 69 PERCENT OF CANADIAN HUNTER'S NATURAL GAS PRODUCTION AND 46 PERCENT OF ITS LIQUIDS PRODUCTION ■ THE DEEP BASIN IS ONE OF THE LARGEST GAS FIELDS IN NORTH AMERICA AND, EVEN THOUGH CANADIAN HUNTER MADE THE ORIGINAL DISCOVERY IN 1976, THE AREA STILL HAS SIGNIFICANT POTENTIAL TO ADD NEW RESERVES ■ OVER THE PAST THREE YEARS, CANADIAN HUNTER HAS REPLACED OVER 100 PERCENT OF PRODUCTION FROM THE DEEP BASIN AT VERY COMPETITIVE FINDING AND DEVELOPMENT COSTS ■ ACTIVITY IS

THE DEEP BASIN AREA REMAINS A POWERFUL ASSET, CONTRIBUTING OVER

COVERS OVER 5,000 SQUARE MILES

643,000 net undeveloped acres

12 PRODUCING HORIZONS

Produces over 85 bcfe annually

GENERATED 63 PERCENT OF 1998 REVENUE

Contains 45 percent of total proven reserves

60 PERCENT OF CANADIAN HUNTER'S TOTAL EQUIVALENT PRODUCTION IN 1998

FOCUSED ON MAXIMIZING THE VALUE OF THE DEEP BASIN BY ECONOMICALLY MAINTAINING OR INCREASING PRODUCTION AND RESERVES AND SUSTAINING LOW OPERATING COSTS FOR THE COMPANY'S EXTENSIVE PLANT AND PIPELINE INFRASTRUCTURE ■ THE DEEP BASIN IS CAPABLE OF SUSTAINING INTERNAL GROWTH AND GENERATING SUFFICIENT CASH FLOW TO FUND THE ONGOING DEEP BASIN CAPITAL PROGRAM, AS WELL AS PROVIDING SURPLUS CASH WHICH IS INVESTED IN CANADIAN HUNTER'S NEW GROWTH AREAS ■ THIS LARGE NATURAL GAS FIELD IS THE CORNERSTONE OF CANADIAN HUNTER'S WESTERN CANADIAN ASSET BASE.

The Deep Basin's considerable opportunities are enhanced by the extensive layering of gas-saturated geological strata or zones. Canadian Hunter is currently exploring and developing 12 zones in the Cretaceous and Triassic age sands. Canadian Hunter's technical expertise and years of experience with these stacked zones provide a distinct competitive advantage. Careful interpretation of the complex geology integrated with detailed engineering data and in-depth commercial analysis allows the Company to control costs and add value. The stacked zones also reduce drilling risk on exploratory wells as multiple targets typically exist in a single wellbore. This has enabled the Company historically to effectively balance low to medium risk infill and step-out drilling with higher risk, higher reward exploration.

The exploration and exploitation potential is further enhanced by the great variability in reservoir characteristics, ranging from high deliverability gas pools to low risk, low cost shallow gas drilling. While some portions of the area are in a mature stage of development, Canadian Hunter holds 643,000 net acres of undeveloped land with significant exploration potential. As part of an active asset management program, the Company continues to acquire strategic acreage.

Canadian Hunter's competitive position is supported by ownership in an extensive infrastructure of midstream assets comprised of gas gathering systems and natural gas processing plants within three main producing areas in the Deep Basin. These facilities allow the Company to bring new production onstream quickly and to control costs. In addition, the Company has ownership in two "deep cut" plants which extract additional volumes of natural gas liquids after initial processing of a natural gas stream.

Canadian Hunter operates and holds an average working interest of 88 percent in the Elmworth facilities which include 400 miles of raw gas gathering system connected to a gas processing plant and a deep cut plant. Elmworth will be connected to the Alliance Pipeline when it commences operation. Canadian Hunter also operates and owns a 100 percent interest in 200 miles of gathering system and a gas processing plant at Noel in British Columbia. Sales gas from Noel is transported east to the NOVA system in Alberta. Within Wapiti, the Company owns interests of 34 and 19 percent in two non-operated gas processing plants and a 25 percent interest in a non-operated deep cut plant.

1998 Activities and Results

Successful exploration and development activity in the Deep Basin resulted in proven reserve additions of 98 billion cubic feet equivalent and a reserve replacement ratio of 113 percent of 1998 production based on reserves added with the drill bit alone. A total of 33 gross (19.6 net) exploration wells and 39 gross (23.5 net) development wells were drilled with an overall net success rate of 82 percent. In addition, a small property acquisition was concluded increasing the overall reserve replacement ratio to 124 percent. The Deep Basin Business Unit was able to achieve these results while investing less than 80 percent of its available cash flow, thereby providing additional funds for investment in other areas of the Company.

The Business Unit's natural gas and liquids production both increased over 1997 production levels to 200 million cubic feet per day and 3,801 barrels per day, respectively. Elmworth contributed 101 million cubic feet per day of natural gas from 189 gross producing wells with an average working interest of 85 percent. Gas production at Noel was 35 million cubic feet per day from 60 gross wells with an average working interest of 90 percent. The Company significantly increased its production capability from the Wapiti area throughout the year with average natural gas production for 1998 of 64 million cubic feet per day from 104 gross wells with an average working interest of 50 percent.

1999 Plans

Canadian Hunter will continue to focus on a balanced portfolio of low, medium and high risk drilling prospects in the Deep Basin in 1999. The Company plans to invest approximately $70 million in drilling and facilities with an emphasis on optimizing production and continuing its record of low reserve replacement costs. In addition, we will continue to focus on maintaining low operating costs. Surplus cash flow will again be provided to Hunter's other business ventures for new growth initiatives. The Company will continue to explore for deeper reserves in the Deep Basin as well as to exploit shallow lower-risk reserves which have become increasingly economical to produce due to the existing infrastructure.

Canadian Hunter also plans to connect the Noel plant to the Elmworth facility and to expand its natural gas liquids extraction business.

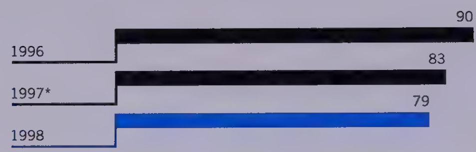
Canadian Hunter will continue to develop midstream opportunities. We are seeking to increase usage of existing infrastructure to generate additional income by processing third-party gas through our facilities at competitive rates.

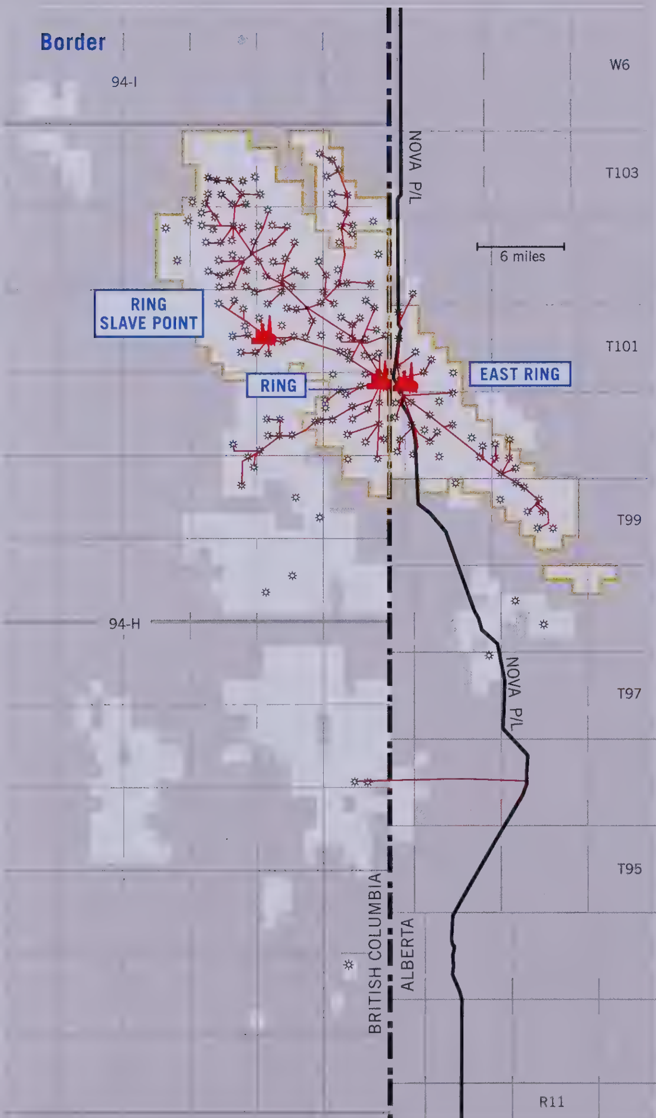
2.

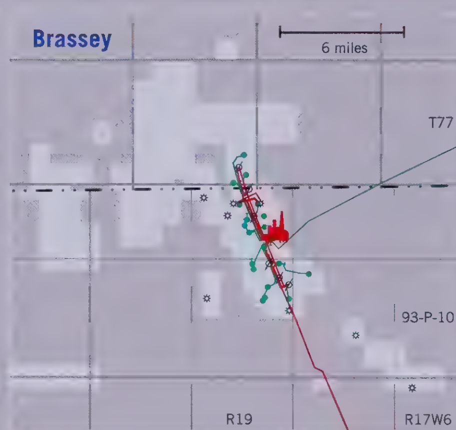
NORTH

North Production
(mmcfe/d)

*Sold properties producing 20 mmcfe/d







Canadian Hunter land
Canadian Hunter gathering system

LEGEND

North Proven Reserves
(bcfe)

*Sold properties with 79 bcfe of reserves

THE NORTH BUSINESS UNIT STRADDLES THE PROVINCIAL BOUNDARY OF NORTHERN BRITISH COLUMBIA AND ALBERTA. THIS GROWTH AREA IS CHARACTERIZED BY RELATIVELY MATURE PRODUCING PROPERTIES AND LARGE AREAS OF UNEXPLORED LANDS WITH SUBSTANTIAL UPSIDE POTENTIAL FOR NATURAL GAS ▪ CANADIAN HUNTER ENTERED THE REGION IN THE 1980S AND, THROUGH A SUCCESSFUL PROGRAM OF EXPLORATION AND EXPLOITATION, HAS DEVELOPED A SUBSTANTIAL ASSET ▪ THIS NORTHERN AREA ENCOMPASSES GAS FIELDS AT RING BORDER, NIG AND GUNDY, AND THE COMPANY'S LARGEST OIL PRODUCING PROPERTY AT BRASSEY ▪ CANADIAN HUNTER OWNS AND OPERATES THREE GAS PROCESSING PLANTS IN THE RING BORDER AREA INCLUDING A SOUR GAS

CANADIAN HUNTER HAS REFINED EXPLORATION AND DEVELOPMENT PROCESSES

WINTER-ONLY ACCESS AREA

470,000 net undeveloped acres

LARGEST OIL PRODUCING AREA

Contains 38 percent of total proven reserves

PRODUCES OVER 28 BCFE ANNUALLY

Generated 22 percent of 1998 revenue

TO STEADILY IMPROVE COSTS AND LOGISTICS IN THIS REMOTE NORTHERN AREA

PLANT AND AN OIL PRODUCING FACILITY AT BRASSEY ▪ CANADIAN HUNTER'S OPERATING STRATEGY FOR THIS CORE AREA IS STRAIGHTFORWARD – BUILD A STRONG PRODUCTION BASE THROUGH LOWER-RISK DEVELOPMENT DRILLING WHILE CREATING LONGER-TERM VALUE THROUGH HIGH POTENTIAL EXPLORATION ▪ THE MAJORITY OF THE AREA IS ACCESSIBLE ONLY IN THE WINTER DUE TO MUSKEG AND A LIMITED ROAD INFRASTRUCTURE; HOWEVER, THE EXCELLENT EXPLORATION PROSPECTS AND LONG-LIFE RESERVE POTENTIAL IN THE AREA ARE CONSIDERED TO FAR OUTWEIGH THE CHALLENGES OF OPERATING IN THIS RUGGED TERRAIN.

1998 Activities and Results

Exploration and exploitation by the North Business Unit during 1998 resulted in proven reserve additions of 68 billion cubic feet equivalent and a reserve replacement ratio of 237 percent of 1998 production based on capital spending of $54 million.

In keeping with Canadian Hunter's strategic focus on a balanced risk profile, 1998 drilling was divided between exploration and development with 26 (21.7 net) exploration wells and 29 (18.6 net) development wells drilled for an overall net success rate of 89 percent.

Ring Border

Ring Border is a liquids-rich natural gas area which has provided the majority of reserve additions by the North Business Unit. The Ring Border area is comprised of two unitized production areas and a high working interest in adjacent lands. The main geological targets are of Cretaceous, Triassic and Devonian age.

In 1998, a total of 37 (26.4 net) wells were drilled in the area with an overall success rate of 89 percent. Continued drilling success has resulted in strong production growth which necessitated an expansion of the Company-operated processing facilities. Net average production during 1998 was 42 million cubic feet per day of natural gas and 685 barrels per day of natural gas liquids.

Brassey

Production of light oil from the 100 percent owned Brassey miscible flood project accounts for 100 percent of the oil production from the North Business Unit. Production from Brassey averaged 1,823 barrels of oil per day and 461 barrels of natural gas liquids per day. Canadian Hunter also upgraded the facility to produce a high grade wellbore fracturing fluid.

West Nig/Gundy

Other Canadian Hunter operations in northeastern British Columbia are focused at Gundy and West Nig, both of which are natural gas properties. In the Gundy area, a four-well vertical and horizontal drilling program was completed in 1998 resulting in two gas wells. Further production history is required to fully evaluate the program.

West Nig is being evaluated as a potential natural gas storage reservoir. Start-up of the Alliance pipeline project will further enhance the commercial viability of the West Nig storage facility.

Regional Exploration

Canadian Hunter is pursuing growth opportunities through exploration of the Slave Point horizon in northeast British Columbia. These deeper exploratory wells are targeting natural gas prone Devonian age reefs. In 1998, the Company drilled three promising test wells in this area.

The Company made a sizeable land addition during 1998 at Liard where 55,000 acres were acquired at 100 percent working interest to explore for Cretaceous and Paleozoic opportunities. Four wells were drilled at Liard in 1998.

1999 Plans

Approximately $50 million of Canadian Hunter's 1999 capital budget is committed to the North Core area for exploration and development.

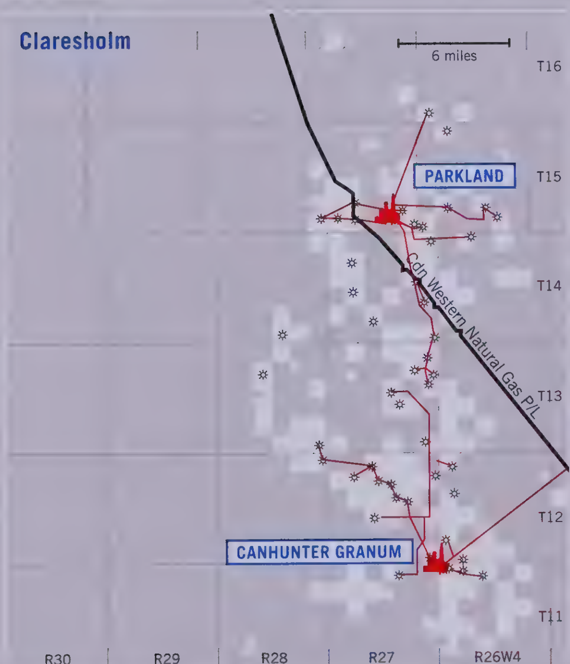
A primary focus will be to effectively manage the risk profile by maintaining a balance between lower-risk development opportunities and higher-risk, high impact exploration. Approximately two-thirds of 1999 expenditures will be related to low to medium risk plays with the remainder dedicated to exploration in new areas.

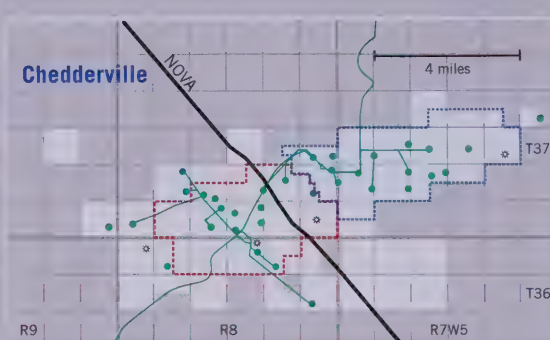
In 1999, activities will focus on maintaining low operating costs and efforts to optimize production from reservoir and plant operations. The North Business Unit will also focus resources on its ongoing acquisition program with the intent of acquiring properties which are a strategic fit to its current activities.

3.

SOUTH CENTRAL

South Central Production
(mmcfe/d)

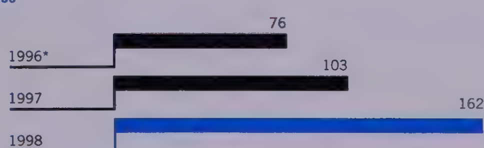




Canadian Hunter land
Canadian Hunter gathering system

LEGEND

South Central Proven Reserves
(bcfe)



*Sold properties with 17 bcfe of reserves

THROUGH CONTINUED EXPLORATION SUCCESS, THE SOUTH CENTRAL BUSINESS UNIT HAS ACHIEVED STRONG PRODUCTION AND RESERVE GAINS OVER THE PAST SEVERAL YEARS ▪ THIS AREA NOW PRODUCES 14 PERCENT OF CANADIAN HUNTER'S NATURAL GAS AND 17 PERCENT OF THE COMPANY'S OIL AND NATURAL GAS LIQUIDS ▪ IN 1998, CANADIAN HUNTER DOUBLED ITS PRODUCTION CAPABILITY IN THE AREA AFTER DRILLING SEVERAL PROLIFIC GAS WELLS AT BERLAND ▪ THE COMPANY ALSO INITIATED A NEW EXPLORATION PROGRAM NEAR LETHBRIDGE UNDER A FARM IN OPPORTUNITY WITH POTENTIAL FOR A LARGE LAND POSITION ▪ THE DRILLING PROFILE RANGES FROM LOW TO MEDIUM TO HIGHER-RISK PLAYS,

CANADIAN HUNTER IS DIRECTING INCREASED CAPITAL TO EXPLORATION

NEWEST BUSINESS UNIT

200,000 net undeveloped acres

EXPANDING EXPLORATION AREA

Contains 17 percent of total proven reserves

PRODUCES OVER 20 BCFE ANNUALLY

Generated 15 percent of 1998 revenue

AND EXPLOITATION OPPORTUNITIES IN ITS NEWEST BUSINESS UNIT

AND CANADIAN HUNTER HAS A LARGE LAND POSITION WITH PROSPECTS RANGING FROM THE EARLY STAGES OF EXPLORATION TO MATURE PRODUCING FIELDS ▪ THE COMPANY OWNS AND OPERATES THE GRANUM PLANT AT CLARESHOLM AND CRUDE OIL WATERFLOOD PROJECTS AT CHEDDERVILLE ▪ WITH CONSIDERABLE MULTI-ZONE POTENTIAL, THE SOUTH CENTRAL AREA CONTINUES TO BE A FOCUS OF LOW COST RESERVE ADDITIONS.

1998 Activities and Results

The South Central Business Unit drilled 42 (29.1 net) wells in 1998 achieving a success rate of 79 percent and adding 81 billion cubic feet equivalent of proven reserves. This resulted in a high reserve replacement ratio of 414 percent and a proven reserve finding and development cost of $0.79 per thousand cubic feet equivalent. Daily liquids production increased to 1,394 barrels per day from 899 barrels per day in 1997. Natural gas production increased from 26 million cubic feet per day to 39 million cubic feet per day.

Claresholm/Parkland

The combined Claresholm/Parkland area offers potential for multi-zone exploration and development of natural gas with moderate liquids content. Canadian Hunter has a large undeveloped acreage position of 45,000 net acres at an average 77 percent working interest and valuable infrastructure through its 100 percent owned Granum plant with current capacity of 25 million cubic feet per day. In addition, the Company has participated in a plant expansion in the non-operated Parkland plant. The area's low drilling risk and low finding and development costs are due largely to the presence of five potential producing zones.

Daily natural gas production increased to 25 million cubic feet from 22 million cubic feet in 1997. In 1998, 12 wells were drilled with a 75 percent success rate. Through a focus on low cost production, operating costs were maintained at $0.26 per thousand cubic feet by achieving a 97 percent service factor at the Claresholm plant and by filling the Parkland plant capacity.

Chedderville

Chedderville is the South Central Business Unit's major oil producing property, a portion of which is currently undergoing waterflood. Activity in 1998 resulted in six wells with a 100 percent success rate. The drilling program delineated existing Cardium and Viking pools. A combination of additional waterfloods and ongoing exploration is expected to maintain production over the next few years.

Greater Kaybob

Canadian Hunter is working to establish a significant presence in the Greater Kaybob area. This area is characterized by multi-zone gas potential in several formations of Devonian, Mississippian and Cretaceous ages. There is often potential for stacking several of these zones. The area is also characterized by a well-developed, underutilized infrastructure.

Since 1995, Canadian Hunter has acquired acreage and drilled wells at three projects within Greater Kaybob. In 1998, the Company participated in 12 wells, resulting in 10 gas wells and two dry holes for an 83 percent success rate. New production was established in each of the project areas: Berland River, West Fir and Bronson.

At Berland River, the Company drilled three wells in a deep sour gas play as a follow-up to a 1997 discovery well. Four sour gas wells are now onstream and producing close to 30 million cubic feet per day of net sales gas. In addition, the Company drilled a shallow sweet gas well which is awaiting tie-in.

At West Fir, Canadian Hunter participated in drilling three medium depth wells resulting in two gas wells and one dry hole.

At Bronson, the Company participated in two successful Devonian sour gas wells and one non-commercial well. The latter will be completed in a shallower sweet gas zone in 1999. The two successful wells have now been connected and are on production.

Lethbridge

Canadian Hunter's newest project in the South Central Business Unit is near Lethbridge where the Company entered into a farm-in with an option on 300,000 acres of land. During 1998, the Company drilled 12 wells which will be production tested and tied-in.

1999 Plans

The South Central Business Unit has a capital budget of close to $70 million, of which half is directed toward exploration with the balance earmarked for development. Exploration drilling will be focused on Kaybob, Claresholm/Parkland and Lethbridge. Development activities will include follow-up drilling and tie-in of discoveries at Claresholm/Parkland, Greater Kaybob and Lethbridge as well as implementation of the Cardium R, Viking S and Viking GG waterfloods at Chedderville.

Reserves Evaluation

Reserves

As of December 31, 1998 (before royalties)	Natural Gas *(bcf)*	Oil and NGLs *(mbbls)*	Equivalent *(bcfe)*
Proven	732	19,487	927
Probable (risked 50%)	87	2,967	117
Established Reserves	819	22,454	1,044

The above reserve balances were developed internally by Company engineers using detailed technical data, appropriate evaluation methods and industry accepted definitions for reserve estimates. The Company's booking philosophy is to coordinate the transfer of probable reserves to the proven category with the expenditure of capital necessary to develop those reserves. Approximately 80 percent of the Company's proven reserves are producing. Canadian Hunter's estimate of established reserves is consistent with the estimate provided by Sproule Associates Limited ("Sproule").

Net Present Value of Reserves

	Present Value Before Tax of Future Cash Flows		
(Proven plus 50% Probable)	0% Discount	10% Discount	15% Discount
Total December 31, 1998 *($ thousands)*	1,505,440	855,438	711,343
Total December 31, 1997 *($ thousands)*	1,274,800	722,286	597,611
Change *(%)*	18.1	18.4	19.0

Sproule provided the valuation of the Company's reserves effective December 31, 1997 based on their complete reserve determination as of the same date. Sproule determined future cash flows using production forecasts derived from their reserve estimates, their escalating price forecast and operating cost estimates based on recent experience. Values for probable reserves were reduced by 50 percent to account for uncertainty. Abandonment costs, overhead costs and the Alberta Royalty Tax Credit are not included in the values provided above.

Sproule performed a reserve determination, effective December 31, 1998, for producing areas totaling approximately 40 percent of the total Company reserves and for new well activity in 1998. To update the remainder of the Company properties, Sproule deducted 1998 production from reserve estimates previously prepared by Sproule, effective December 31, 1997. Sproule provided the December 31, 1998 valuation based on their estimate of 1998 reserves.

On an annual basis, the Company intends to engage an external engineering firm to provide a reserve determination for approximately one-third of its reserves on a rotating basis plus new drilling additions. This annual review will be used to update the external valuation of future cash flows from reserves.

An Extensive Natural Gas Infrastructure

With a successful track record in processing, gathering and storing third party natural gas, Canadian Hunter plans to expand investments in commercial natural gas infrastructure where there is synergy with its own activities.

SELLING OUR PRODUCT

NATURAL GAS PRICES

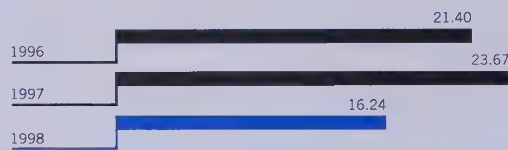
Canadian Hunter's natural gas marketing and trading program has historically resulted in an average natural gas price exceeding the AECO average. In 1998, the price averaged $2.07 per thousand cubic feet.

Average Natural Gas Prices
($/mcf)

LIQUIDS PRICES

The dramatic drop in world oil prices during 1998 reduced Canadian Hunter's average price received for crude oil and natural gas liquids by 31 percent.

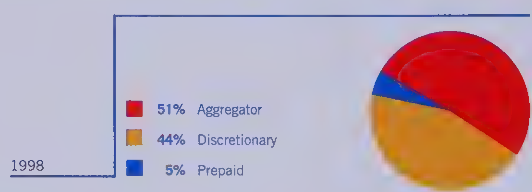
Average Oil and Natural Gas Liquids Prices
($/ bbl)



GAS SALES PORTFOLIO

Canadian Hunter adjusts its portfolio of natural gas contracts each year to maximize gas prices based on expected market conditions. For 1998, this resulted in a higher proportion of sales to aggregators.

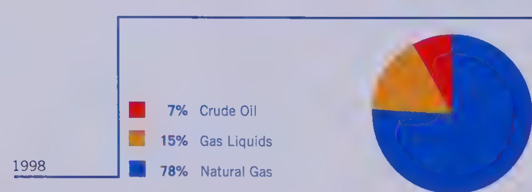
1998 Gas Sales



PRODUCT MIX

Canadian Hunter's production is strongly biased to natural gas with 93 percent of production made up of gas and gas liquids on an equivalent basis in 1998.

1998 Product Mix



Marketing

Direct control over the marketing of natural gas is considered fundamental to creating value for Canadian Hunter. The Company markets its production volumes, along with some third party volumes, through a marketing group which tracks market conditions and responds quickly to opportunities to add value. A highly effective interface between the marketing group in Calgary and the Company's field facilities provides an additional competitive advantage. With Canadian Hunter's high working interests in producing wells and infrastructure, the Company has the flexibility to control volumes and access a variety of markets. This allows Canadian Hunter to take advantage of price volatility. Specifically, when natural gas experiences significant short-term price declines, the marketing group can quickly direct a portion of the Company's natural gas production to be shut in, while bargain-priced volumes can be purchased on the spot market to meet contract obligations. This strategy preserves the value of Hunter's reserves in the ground while capturing the spread between monthly contract prices and low spot prices.

Canadian Hunter manages a large portfolio of contracts involving a variety of markets. During 1998, approximately 51 percent of the Company's natural gas was sold to aggregators under long-term contracts and 44 percent was sold under Alberta fixed and indexed contracts on a discretionary basis, responding to expected market conditions. The remaining five percent was sold under prepaid contracts.

In 1998, the Company's marketing activities resulted in an average price of $2.07 per thousand cubic feet at the plant gate. This price exceeded the AECO monthly index, expressed at the plant gate, by $0.11 per thousand cubic feet. Canadian Hunter's ability to outperform this standard reflects the success of our trading and hedging program in 1998.

For 1999, Canadian Hunter anticipates greater pipeline capacity will result in narrowing basis differentials, and has increased the portfolio exposure to Alberta prices.

Canadian Hunter markets crude oil under short term contracts at Edmonton postings. Natural gas liquids are sold as part of the natural gas stream or as natural gas liquids depending on relative pricing. Natural gas liquids sales are contracted through October, 2001.

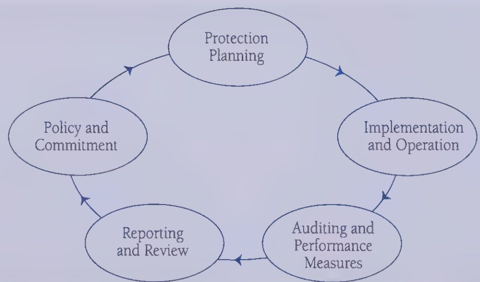
Environmental, Health and Safety (EH&S)

Canadian Hunter's focus on creating, building and preserving value extends to the important issues of environmental, health and safety (EH&S) protection of all employees, contractors and the communities located near Company operations. EH&S measures are integrated into all operations. Our EH&S team is dedicated to identifying, implementing and monitoring related programs to ensure compliance with government regulations and corporate policies.

Over the past few years, a comprehensive management system for addressing EH&S issues has been introduced and communicated throughout the organization. The management model encompasses protection planning to identify areas requiring action. The next step is implementation of programs based on strategies and performance goals. Auditing of operations along with the reporting and review of results are essential in ensuring compliance in all Company activities. The key to the success of this initiative is the Company-wide commitment to safeguarding the environment, people, property and communities.

EH&S MANAGEMENT SYSTEM

In order to meet the objective of full EH&S integration into Canadian Hunter's business activities and minimize company liabilities, an effective EH&S management system has been implemented.



Environmental Protection

Canadian Hunter works proactively with communities and stakeholders to identify environmental issues in the initial stages of project development and address them appropriately. Access to land has become increasingly important as the Company expands its operating base in Alberta and British Columbia. Crown lands that come under protection for wildlife conservation, as well as First Nations traditional use, have led to restricted access in some areas which can present operating constraints.

As part of Canadian Hunter's environmental protection program, the Company participates in the federal government's Voluntary Challenge Program to reduce greenhouse gases. In December, 1997 at a conference in Kyoto, Japan, Canada agreed to reduce total emissions by six percent from 1990 levels. Meeting that target will be a challenge facing all industries. Canadian Hunter has submitted an action plan to Natural Resources Canada and has provided annual updates summarizing actions, future plans and key performance indicators. The Company's current initiatives are focused on optimizing operations primarily through reducing energy demands.

From an operational perspective, numerous environmental initiatives are currently underway. These include an assessment of flare pits and underground storage tanks, and a program to inspect and reclaim suspended well sites. Another focus has been in the area of waste management with the introduction of a waste tracking system to ensure compliance.

Efforts to minimize environmental liabilities and areas of concern are ongoing. With the support of all office and field staff, Canadian Hunter is striving to not only comply with government standards, but to be among the industry leaders in environmental protection.

Health and Safety

Safety training is critical to Canadian Hunter's performance. The Company conducts ongoing safety training for its employees and contractors and has in place contractor safety guidelines. The guidelines are given to contractors prior to the start of any job and outline Canadian Hunter's expectations with regard to safety and training requirements and emergency response procedures. When combined with a commitment to safe working conditions, this program has helped Canadian Hunter maintain a good record of on the job safety.

All of Canadian Hunter's efforts to manage and promote EH&S protection are rooted in its corporate philosophy of creating, building and preserving value. The Company has a reputation for being a safe and responsible operator. In turn, this has led to an acceptance of Canadian Hunter's activity within local communities. Furthermore, a low turnover rate among head office employees, field staff and contractors has contributed to Canadian Hunter's success, and to its commitment to maintaining quality and value in its operations.

Community Involvement

Canadian Hunter can look back on a long track record of helping to improve the quality of life in large and small communities across Alberta and British Columbia. This commitment to corporate citizenship has evolved into a Company-wide ethic of community support, service and leadership. One example of this philosophy is the participation by 100 percent of Canadian Hunter employees in the United Way Campaign. Another example is the large number of employees who actively volunteer with numerous organizations, many in leadership roles in community, cultural, sport, health and social programs.

From a corporate perspective, the philosophy of community support is seen through an active corporate donations program which supports important community projects and provides financial assistance. Canadian Hunter assists community organizations in all of its areas of operations. The Company has provided significant funding to organizations and initiatives in education, health, social/welfare, cultural endeavors, community and civic activities.

MANAGEMENT'S DISCUSSION & ANALYSIS

FINDING AND DEVELOPMENT COSTS

Canadian Hunter's focused activity base and rigorous cost control has resulted in consistently low finding and development costs that position the Company among top quartile performers.

Finding and Development Costs
($/mcfe)

CASH FLOW PER SHARE

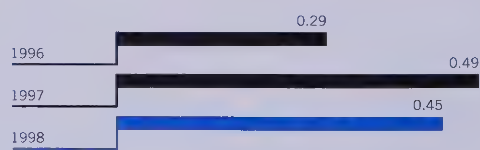
Cash flow in 1998 was impacted by cash taxes allocated by Noranda Inc. and one time costs associated with going public. These two charges reduced 1998 cash flow per share by $0.19.

Cash Flow per Share
(Pro-forma) ($/share)

NET INCOME PER SHARE

Net income was reduced by eight percent in 1998 due to one time costs associated with going public.

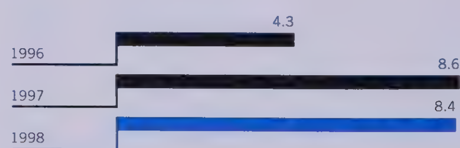
Net Income per Share
(Pro-forma) ($/share)



RETURN ON EQUITY

Canadian Hunter uses return on equity as a key performance measurement of shareholder value.

Return on Shareholders' Equity
Pro-forma) (percent



Years ended December 31	*1998*	1997	% change
Financial *(Pro-forma) ($ thousands, except per share amounts)*			
Petroleum and Natural Gas Sales	*266,456*	260,433	2
Net Income	*26,686*	28,961	(8)
Cash Flow from Operations	*156,168*	161,143	(3)
Capital Expenditures			
Exploration and Development	*195,756*	166,279	18
Acquisitions	*14,610*	5,604	161
Dispositions	*(3,147)*	(145,949)	(98)
Per Share Information *(Pro-forma)*			
Net Income per Common Share	*0.45*	0.49	(8)
Cash Flow per Common Share	*2.62*	2.71	(3)
Common Shares Outstanding *(thousands)*	*59,564*	59,564	–
Operating			
Total Daily Production *(mmcfe/d)*	*370*	353	5
Natural Gas Sales Price *($/mcf)*	*2.07*	1.92	8
Crude Oil Sales Price *($/bbl)*	*22.88*	29.19	(22)
Natural Gas Liquids Price *($/bbl)*	*13.22*	20.42	(35)
Combined Oil and Liquids Price *($/bbl)*	*16.24*	23.67	(31)
Average Sales Price *($/mcfe)*	*1.97*	2.02	(2)

Overview

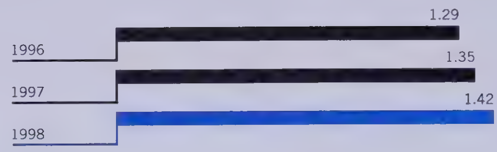
Management's discussion and analysis describes Canadian Hunter's operating and financial results for the years ended December 31, 1998 and 1997.

Canadian Hunter operated as a division of Noranda Inc. until December 31, 1998. At that time, Canadian Hunter became a public company through a distribution of common shares of Canadian Hunter by Noranda Inc. to its shareholders. The financial statements for Canadian Hunter have been prepared on a pro-forma basis to reflect the distribution on a retroactive basis for both 1998 and 1997 as described in Note 3 to the Financial Statements.

Canadian Hunter generated net income for 1998 of $27 million, slightly lower than 1997. Cash flow from operations declined to $156 million in 1998 as a result of $7 million of cash income taxes allocated by Noranda Inc. and $5 million of costs associated with going public. Average production increased to 370 million cubic feet equivalent per day for 1998 as a result of successful drilling that added 247 billion cubic feet equivalent of proven reserves. Canadian Hunter continues to operate in the top quartile of oil and gas production companies for both finding and development costs and operating costs.

NATURAL GAS NETBACK
($/mcf)

Strong netbacks reflect successful marketing efforts and low operating costs.



Production Summary

Years ended December 31	*1998*	1997	% change
Natural Gas			
Total Production *(mmcf)*	*105,096*	99,423	6
Average Daily Production *(mmcf/d)*	*288*	272	6
Crude Oil and Natural Gas Liquids			
Total Production *(mbbls)*	*3,007*	2,948	2
Average Daily Production *(bbls/d)*	*8,238*	8,077	2
Total			
Total Production *(mmcfe)*	*135,164*	128,903	5
Average Daily Production *(mmcfe/d)*	*370*	353	5

Total production increased by five percent in the year mainly as a result of 1997 and 1998 drilling activities. During 1997, Canadian Hunter disposed of properties which, at the time of disposition, were producing approximately 30 million cubic feet equivalent per day and which reduced annualized 1997 production by 11 million cubic feet equivalent per day. During 1998, Canadian Hunter acquired additional working interests in certain properties with total annualized production of 3 million cubic feet equivalent per day.

Land Holdings

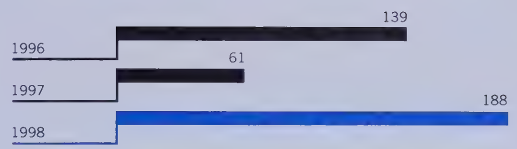
The accumulation of an extensive land base has been a key component of Canadian Hunter's exploration and development strategy. Canadian Hunter acquires land only when specific exploration prospects are identified. As at December 31, 1998, the Company had a net undeveloped land position of 1.3 million acres. In addition to the current land base, the Company has an option on 300,000 net acres in the Lethbridge area.

Drilling Activity

Canadian Hunter increased both its level of drilling activity and its drilling success rate in 1998. The drilling program resulted in 169 gross (112.5 net) wells with a net success rate of 84 percent compared to 139 gross (97.8 net) wells and a net success rate of 75 percent in 1997. The Company's drilling program was comprised of 88 gross (63.9 net) exploratory wells and 81 gross (48.6 net) development wells.

RESERVE REPLACEMENT RATIO
(%)

During 1998 Canadian Hunter replaced 188 percent of proven reserves using 133 percent of cash flow.



Reserve Reconciliation

The following tables provide a summary of the changes in reserves that occurred in the most recent fiscal year.

	Natural Gas *(bcf)*			Oil and NGLs *(mbbls)*		
	Proven	50% of Probable	Established	Proven	50% of Probable	Established
As at December 31, 1997	658	90	748	14,969	2,056	17,025
Drilling	164	5	169	3,151	298	3,449
Revisions	9	(8)	1	4,248	612	4,860
Total Additions	173	(3)	170	7,399	910	8,309
Property Acquisitions	8	–	8	126	1	127
Property Dispositions	(2)	–	(2)	–	–	–
Production	(105)	–	(105)	(3,007)	–	(3,007)
As at December 31, 1998	*732*	*87*	*819*	*19,487*	*2,967*	*22,454*

Natural gas represents 79 percent or 732 billion cubic feet of total proven reserves. Crude oil and natural gas liquids represent 21 percent, or the remaining 195 billion cubic feet equivalent. Canadian Hunter added 254 billion cubic feet equivalent and produced 135 billion cubic feet equivalent achieving an overall reserve replacement of 188 percent. Exploration and development activities added 247 billion cubic feet equivalent of proven reserves for an exploration and development replacement ratio of 183 percent.

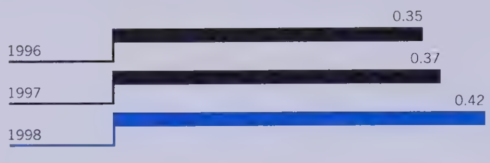
Operations

Results of Operations *(Pro-forma)*

Years ended December 31 ($ thousands, except per share amounts)	*1998*	1997	% change
Natural Gas			
Revenue	*217,615*	190,646	14
Royalties	*(36,240)*	(31,803)	14
Operating Costs	*(30,918)*	(23,742)	30
Operating Contribution	*150,457*	135,101	11
Oil and NGLs			
Revenue	*48,841*	69,787	(30)
Royalties	*(7,556)*	(12,822)	(41)
Operating Costs	*(3,866)*	(5,009)	(23)
Operating Contribution	*37,419*	51,956	(28)
Total Operating Contribution	*187,876*	187,057	0
Expenses			
General and Administration	*11,000*	9,413	17
Interest	*8,750*	8,750	0
Non-recurring Costs and Other	*(77)*	5,667	(101)
Depletion and Depreciation	*120,798*	114,958	5
Total Expenses	*140,471*	138,788	1
Net Income Before Tax	*47,405*	48,269	(2)
Provision for Income Tax	*20,719*	19,308	7
Net Income	*26,686*	28,961	(8)
Net Income per Share *($)*	*0.45*	0.49	(8)

OPERATING AND OVERHEAD COST STRUCTURE *($/mcfe)*

Combined operating and general and administrative costs were below industry average.



Natural Gas and Petroleum Revenue

Overall revenues for the year reached $266 million, representing a slight increase from 1997 revenue of $260 million. This increase in revenues can be attributed to a five percent increase in overall production partially offset by a two percent decrease in overall realized price. In 1998, 82 percent of Canadian Hunter's total revenue was from the sale of natural gas compared to 73 percent in 1997.

Canadian Hunter's total average production for 1998 reached 370 million cubic feet equivalent per day, up from 353 million cubic feet equivalent per day in 1997.

Realized plant gate prices for natural gas increased from $1.92 per thousand cubic feet in 1997 to $2.07 per thousand cubic feet in 1998, an increase of eight percent. Wellhead oil and natural gas liquids prices decreased from $23.67 per barrel in 1997 to $16.24 per barrel in 1998, reflecting the decline in world oil prices. The overall price achieved by Canadian Hunter declined $0.05 per thousand cubic feet equivalent to $1.97 per thousand cubic feet equivalent in 1998.

Royalty Expenses

Total royalties deducted from Canadian Hunter's natural gas and petroleum sales in 1998 were $44 million compared to $45 million in 1997. On an equivalent basis, total royalties fell to $0.33 per thousand cubic feet in 1998 from $0.36 per thousand cubic feet in 1997 due to lower product prices. Royalties as a percentage of sales dropped to 16.4 percent from 17.1 percent in 1997 reflecting the drop in crude oil and natural gas liquids prices.

Operating Expenses

Operating expenses increased to $0.26 per thousand cubic feet equivalent in 1998 from $0.22 per thousand cubic feet equivalent as a result of startup and third party gas processing costs associated with new sour gas production in central Alberta. In addition, operating costs were also affected by increased compression requirements in northern Alberta and British Columbia.

General and Administrative Expenses

Expensed general and administrative costs increased $1.6 million in 1998 to $11 million, reflecting higher staff levels required to achieve the Company's growing exploration, development and operating objectives. Expensed general and administrative costs were $0.08 per thousand cubic feet equivalent in 1998 compared to $0.07 per thousand cubic feet equivalent in 1997.

Depletion, Depreciation and Amortization

The depletion, depreciation and amortization rate remained constant during 1998 at $0.89 per thousand cubic feet equivalent of production. Depletion cost was $0.82, depreciation was $0.04 and reclamation was $0.03 for the year, expressed per thousand cubic feet equivalent of production. The total of these expenses was up $6 million to $121 million as a result of increased production.

Interest Expense

Canadian Hunter as a division of Noranda Inc. did not incur interest expense in 1998 or 1997. To reflect Canadian Hunter on a stand-alone basis, the pro-forma statement of net income shows $8.8 million in imputed interest for 1998 and 1997.

Non-Recurring Costs and Other

Non-recurring costs include expenses which were associated with Canadian Hunter becoming a public company. In addition, non-recurring expenses were reduced by other revenue of $6.2 million received under a contract settlement in 1998, reducing net non-recurring costs to $2.2 million.

Income Taxes

As a division of Noranda Inc., Canadian Hunter did not incur proprietary income taxes in 1998. An imputed expense was calculated using a tax rate of 40 percent in the pro-forma statement of net income to reflect Canadian Hunter's stand-alone tax provision.

Cash Flow and Net Income

Pro-forma cash flow from operations in 1998 was $156 million compared to $161 million in 1997. This decrease is mainly the result of cash taxes and non-recurring costs incurred in becoming a public company. On a per share basis, cash flow was $2.62 in 1998 compared to $2.71 in 1997.

Net income declined to $27 million in 1998 from $29 million in 1997, due largely to one-time costs associated with going public. Net income on a per share basis was $0.45 in 1998 and $0.49 in 1997. Increased production was offset by the drop in average product prices, resulting in flat operating income over the two years. In addition, depletion expense increased due to the higher production volumes.

Capital Expenditures *(Pro-forma)*

Years ended December 31 ($ thousands)	*1998*	1997	% change
Lease Acquisition and Rentals	*28,921*	34,641	(17)
Seismic	*4,636*	8,161	(43)
Drilling and Completion	*105,007*	82,750	27
Facilities and Gathering Systems	*46,147*	30,903	49
Capitalized General and Administrative	*11,045*	9,824	12
Total Exploration and Development	*195,756*	166,279	18
Midstream Assets	*3,190*	–	100
Other Equipment	*2,578*	2,506	3
Acquisitions	*14,610*	5,604	161
Dispositions	*(3,147)*	(145,949)	(98)
Total Capital Expenditures	*212,987*	28,440	649

Capital expenditures for exploration and development rose by $30 million or 18 percent in 1998 over 1997 as activity levels increased. Drilling and completions expenditures increased most significantly from $83 million to $105 million. These expenditures represented 54 percent of total exploration and development capital in 1998, up from 50 percent in 1997. Facilities expenditures rose by $15 million to $46 million to support higher production levels.

Finding and development costs were $0.79 per thousand cubic feet equivalent in 1998 compared with $0.77 per thousand cubic feet equivalent in 1997.

During 1998, capital expenditures included $14.6 million to acquire 9.5 billion cubic feet equivalent of proven reserves. These acquisitions increased Canadian Hunter's working interest in key production and development areas. Canadian Hunter also disposed of 2.3 billion cubic feet equivalent of non-core proven reserves in 1998 for proceeds of $3.1 million. In 1997, Canadian Hunter sold non-core assets for total proceeds of $146 million in an active market. These assets had underlying reserves of 143 billion cubic feet equivalent, resulting in disposition proceeds of $1.02 per thousand cubic feet equivalent.

In addition to exploration and development, Canadian Hunter invested $3.2 million in midstream projects in 1998.

Natural Gas Marketing

Canadian Hunter currently markets the majority of its natural gas production in Alberta with contract terms of up to one year. The pricing of these contracts fluctuates with the market prices for natural gas; however, the Company is able to swap into fixed price contracts when conditions warrant. Over the past year, Canadian Hunter has reduced the proportion of gas sold through aggregators as production from new discoveries is sold into Alberta fixed and indexed contracts.

Deferred Revenue

Deferred revenue of $41 million as at December 31, 1998 (1997 – $47 million) pertains to two agreements under which Canadian Hunter was prepaid for certain long term commitments. The Company entered into one of the contracts in 1991 in which it was paid in advance to supply 70 billion cubic feet of natural gas to be delivered over

16 years. During 1998, 6 billion cubic feet was supplied into this contract and the balance at December 31, 1998 is 44 billion cubic feet representing $26.6 million of related deferred revenue. The other contract included a 1997 payment of US$10.5 million made to Canadian Hunter to secure the Company's commitment to utilize 19,438 million British thermal units per day of pipeline capacity for the contract term of November 1, 1997 to October 31, 2023. At December 31, 1998, deferred revenue of $14 million pertains to this contract. The balances in these deferred revenue accounts are amortized into income as Canadian Hunter's contractual obligations are met.

Operating Netbacks

Operating netbacks (revenues less royalties and operating costs) decreased to $1.38 per thousand cubic feet equivalent in 1998 from $1.44 per thousand cubic feet equivalent in 1997. Net operating costs and royalties increased by $0.01 to $0.59 per thousand cubic feet equivalent. The decline in the operating netback was primarily due to the $0.05 per thousand cubic feet equivalent decrease in the average price realized in the year.

Price Sensitivity

Canadian Hunter's net income is sensitive to changes in commodity prices which are beyond its control. The following table outlines the estimated impact on net income from changes in commodity prices.

	Net income	
	millions	per share
Prices		
$0.10/mcf Change in Natural Gas	$ 4.8	$ 0.08
US$1.00/bbl Change in WTI	$ 0.8	$ 0.01

Liquidity and Capital Resources

As at December 31, 1998, Canadian Hunter owed Noranda Inc. $150 million. This interim debt was unsecured. Canadian Hunter repaid the Noranda Inc. debt in February, 1999 with credit facilities arranged with two major Canadian banks. The amount of these established credit facilities totals $225 million with a revolving term which can be converted into an amortizing term loan at the Company's discretion. Funds drawn under these facilities currently incur interest at the current bankers' acceptance rate.

As at December 31, 1998, Canadian Hunter had a working capital deficit of $10 million and unused credit facilities of $75 million. The Company's long-term debt to cash flow from operations ratio of 0.96:1 is significantly below the industry average.

It is anticipated that available credit facilities, together with cash generated from operations, will be sufficient to meet Canadian Hunter's near-term corporate requirements and incremental capital requirements.

Material Contracts

In addition to the contracts discussed under Deferred Revenue, Canadian Hunter has committed to 50 million cubic feet per day of firm capacity on Alliance Pipeline. Of this total volume, 15 million cubic feet per day is to be supplied from British Columbia with the remaining 35 million cubic feet per day supplied from Elmworth and Wapiti.

Outlook

During 1999, Canadian Hunter will continue to expand its asset base through a combination of exploration, development and acquisitions. The Company has budgeted $215 million for the development of its current reserves as well as exploring for new reserves. The majority of Canadian Hunter's exploration expenditures will be directed to activity in its three core areas, predominantly targeting natural gas.

Canadian Hunter's international business unit is still in an early development stage. This business unit is currently evaluating small acquisition targets in South America. The development of international ventures will continue to evolve in line with Canadian Hunter's criteria of low-risk development plays in politically stable countries with existing production.

Business Risk

Canadian Hunter is subject to many industry risks associated with the exploration, development and marketing of natural gas, natural gas liquids and oil. Canadian Hunter endeavours to mitigate these risks by focusing its activities in areas where it has developed expertise, and where the Company has a balanced portfolio of exploration and development prospects.

Economic risk is reduced by using the appropriate technology to maximize the Company's ability to effectively locate reserves. In addition, Canadian Hunter attracts and employs highly-skilled professionals in order to maximize the value of the Company's assets. Financial risks are mitigated by maintaining a balanced marketing portfolio, whereby the Company combines short-term agility with long-term pricing stability in order to achieve optimum product pricing.

In all areas of activity, Canadian Hunter is committed to operating in an environmentally sensitive manner and to safeguard the health and welfare of the Company employees and the public. To ensure that Canadian Hunter's values are instilled throughout the organization, it has developed a comprehensive environmental, health and safety program. The Company also completes a rigorous screening of all its contractors, including oilfield services companies to ensure safe, efficient performance on all Canadian Hunter job sites.

Year 2000 Compliance

Canadian Hunter initiated a project in 1997 to address the Year 2000 issue in order to minimize the potential risk to its business operations. Senior management has given this project high priority and it has progressed according to plan. Canadian Hunter is actively working towards a completion date in the first half of 1999, including the remediation, testing and integration of all systems. An assessment of the year 2000 readiness of third parties such as customers, suppliers and others is on-going.

An inventory of all critical systems was completed in December, 1997, with all other systems completed in June, 1998. The development of high level plans to remediate and/or test each critical system was also completed in December, 1997.

To date, the cost of the Year 2000 project has not been material to Canadian Hunter and costs related to hardware and software modifications are expensed as incurred. Based on an assessment by senior management, the total cost for Canadian Hunter to become compliant is not expected to have a material adverse impact on the Company's financial position. In addition, Canadian Hunter does not expect its ability to conduct normal business operations and to supply products to customers to be adversely affected.

Management's Report

The accompanying consolidated financial statements and other financial information have been prepared by the Company's management who are responsible for the integrity and objectivity of the statements. Management has implemented systems of internal control to provide reasonable assurance that all transactions are properly authorized, assets are safeguarded and financial records are maintained to facilitate the preparation of reliable and timely consolidated financial statements.

These statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on management's judgement. Prior to December 31, 1998, the Company operated as a division of Noranda Inc. Pursuant to a plan of arrangement effective December 31, 1998 (the "Arrangement") Noranda Inc. distributed its natural gas and petroleum assets to its shareholders resulting in Canadian Hunter becoming a public company. Information pertaining to the Company prior to the Arrangement has been restated to reflect the retroactive effect of the Arrangement. The effects of the restatement are described in Notes 1 and 3 to the financial statements. The financial information presented throughout this Annual Report is consistent with the information contained in the accompanying consolidated financial statements.

Ernst and Young, the independent auditors, have reviewed the systems of internal controls and examined the financial statements and pro-forma financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. The report of the auditors is set out below.

The financial statements have been further examined by the Board of Directors and by its Audit Committee. The auditors have direct and full access to the Audit Committee and meet with the committee both with and without the presence of management. The Board of Directors, through its Audit Committee, oversees management's financial reporting responsibilities and is responsible for reviewing and approving the financial statements.

Stephen J. Savidant
President and
Chief Executive Officer

Stephen B. Soules
Vice President, Finance,
Chief Financial Officer and
Corporate Secretary

Calgary, Canada
January 20, 1999

Auditors' Report

To the Shareholders of Canadian Hunter Exploration Ltd.

We have audited the consolidated balance sheet and the pro-forma consolidated balance sheet of Canadian Hunter Exploration Ltd. as at December 31, 1998 and 1997, respectively, and the pro-forma consolidated statements of net income and cash flow for the years then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position and pro-forma financial position of Canadian Hunter Exploration Ltd. as at December 31, 1998 and 1997, respectively, and the pro-forma results of operations and the pro-forma cash flow for the years then ended after giving effect, with respect to the pro-forma statements, to the changes set forth in Note 3, in accordance with generally accepted accounting principles.

As more fully described in Note 1, Canadian Hunter Exploration Ltd. operated as a Division of Noranda Inc. (the "Division") until December 31, 1998 when it became a separate publicly traded company. Until that time the Division had no separate legal status.

Ernst + Young LLP

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
January 20, 1999

financial statements

CONSOLIDATED BALANCE SHEETS

(See basis of presentation – Note 1)

As at December 31

($ thousands)	*1998*	Pro-Forma 1997
		(Note 3)
Assets		
CURRENT		
ACCOUNTS RECEIVABLE	*39,536*	46,162
INVENTORY	*7,443*	8,127
TOTAL CURRENT ASSETS	*46,979*	54,289
PROPERTY, PLANT AND EQUIPMENT (note 4)	*757,756*	660,969
	804,735	715,258
Liabilities and Shareholders' Equity		
CURRENT		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	*53,738*	46,836
CURRENT PORTION OF DEFERRED REVENUE AND OTHER LIABILITIES (note 5)	*3,476*	3,476
TOTAL CURRENT LIABILITIES	*57,214*	50,312
DEFERRED REVENUE AND OTHER LIABILITIES (note 5)	*71,320*	75,940
LONG-TERM DEBT (note 6)	*149,997*	125,000
FUTURE INCOME TAX LIABILITY	*178,684*	178,150
TOTAL LIABILITIES	*457,215*	429,402
COMMITMENTS AND CONTINGENCIES (notes 11 & 12)		
SHAREHOLDERS' EQUITY (note 7)	*347,520*	285,856
	804,735	715,258

See accompanying notes

ON BEHALF OF THE BOARD OF DIRECTORS:

Brian G. Kenning
Director

Stephen J. Savidant
Director

CONSOLIDATED INCOME STATEMENTS (Pro-forma)

For the years ended December 31

($ thousands except per share amounts)	*1998*	1997
	(Notes 1 and 3)	
Revenue		
Petroleum and natural gas sales	*266,456*	260,433
Royalties	*(43,796)*	(44,625)
	222,660	215,808
Expenses		
Production	*34,784*	28,751
General and administrative	*11,000*	9,413
Interest (note 3)	*8,750*	8,750
Depletion, depreciation and amortization	*120,798*	114,958
Restructuring charges and other non-recurring items (note 9)	*2,218*	5,555
Other	*(2,295)*	112
	175,255	167,539
Income before income taxes	*47,405*	48,269
Income taxes (note 3)	*20,719*	19,308
Net income for the year	*26,686*	28,961
Net income per share	*0.45*	0.49

See accompanying notes

financial statements

CONSOLIDATED STATEMENTS OF CASH FLOW (Pro-forma)

For the years ended December 31

($ thousands except per share amounts)	*1998*	1997
	(Notes 1 and 3)	
Operating Activities		
Net income for the year	*26,686*	28,961
Add (deduct) items not involving cash:		
Depletion, depreciation and amortization	*119,319*	114,261
Deferred revenue recognized in the year	*(1,687)*	(1,387)
Future income taxes	*11,850*	19,308
	156,168	161,143
Net change in non-cash working capital balances (note 10)	*1,680*	(7,325)
Cash provided by operating activities	*157,848*	153,818
Investing Activities		
Exploration and development of oil and natural gas properties	*(195,756)*	(166,279)
Acquisition of equipment and other	*(2,578)*	(2,506)
Acquisition of midstream assets	*(3,190)*	–
Acquisition of oil and natural gas properties	*(14,610)*	(5,604)
Disposition of oil and natural gas properties	*3,147*	145,949
Net change in non-cash working capital (note 10)	*12,532*	7,256
Cash used in investing activities	*(200,455)*	(21,184)
Financing Activities		
Net investment by (distribution to) Noranda Inc.	*48,659*	(142,187)
Deferred revenue and other liabilities	*(6,052)*	9,553
Cash provided by (used in) financing activities	*42,607*	(132,634)
Net change in cash during the year and cash, beginning and end of year	–	–
Cash flow per share	2.62	2.71

See accompanying notes

notes to financial statements

(thousands of dollars)

Note 1 Basis of Presentation

On December 3, 1998, the shareholders of Noranda Inc. approved a plan of arrangement whereby, among other things, Noranda Inc. would distribute its investment in its oil and natural gas assets to its shareholders and establish the business as a separate, publicly traded company. The plan of arrangement which was implemented under the Business Corporations Act (Ontario) (the "Arrangement") became effective December 31, 1998. Immediately following completion of the Arrangement, 804296 Alberta Ltd. and Canadian Hunter Exploration Ltd. amalgamated under the name "Canadian Hunter Exploration Ltd." (the "Company" or "Canadian Hunter"). The Company commenced trading as an independent company on The Toronto Stock Exchange on December 31, 1998 under the symbol HTR.

The accompanying financial statements present the consolidated financial position and pro-forma financial position of the Company as at December 31, 1998 and 1997, respectively, and the pro-forma net income and pro-forma cash flow for the years then ended which includes Canadian Hunter Exploration Ltd., (509162 Alberta Ltd., 329316 Alberta Ltd., 329298 Alberta Ltd., Elmworth Straddle Plant Partnership, Wapiti Straddle Plant Partnership) and the oil and natural gas assets of Noranda Inc. (collectively referred to as the "Division.") which were transferred to 804296 Alberta Ltd. on December 31, 1998. The pro-forma financial statements also reflect the capital transactions affecting the Arrangement as described in Note 7 and the pro-forma adjustments in Note 3.

Note 2 Summary of Significant Accounting Policies

These financial statements have been prepared by management in accordance with generally accepted accounting principles.

Oil and natural gas operations Canadian Hunter follows the full cost method of accounting for oil and natural gas operations, as prescribed by The Canadian Institute of Chartered Accountants, whereby all costs relating to the exploration for and the development of oil and natural gas reserves are capitalized and accumulated in country-by-country cost centres. Capitalized costs include lease and reserve acquisition costs, geological and geophysical costs, carrying charges of non-producing properties, costs of drilling both productive and non-productive wells and direct overhead expenditures related to exploration and development activities. Costs capitalized are depleted and depreciated using the unit-of-production method based on proven oil and natural gas reserves converted to a common unit of measure based on relative heating value. Proceeds from the disposal of oil and natural gas properties are applied as a reduction of capitalized costs, except when such disposition would result in a significant change in the rate of depletion, in which case a gain or loss on disposal would be recorded.

In applying the full cost method of accounting, Canadian Hunter performs a ceiling test which restricts capitalized costs less accumulated depletion and depreciation from exceeding the estimated undiscounted value of future net revenue derived from proven oil and natural gas reserves, less the aggregate of estimated future general and administrative, financing, site restoration and abandonment costs net of salvage values and income tax costs, plus the lower of cost and estimated net realizable value of unproved properties. In calculating the ceiling test, year-end prices of oil and natural gas are used and all costs are assumed to be held constant.

Estimated future site restoration and abandonment costs are calculated using the unit-of-production method. Estimated costs are based on independent engineering estimates in accordance with current legislation and industry practices. The annual charge is recorded as additional depletion and depreciation. When expenditures are made to restore a property, the accumulated provision is charged with these expenditures.

Depreciation of equipment is provided using the declining balance method at rates ranging from 10 percent to 33 percent per annum.

Measurement uncertainty The amounts recorded for depletion and depreciation of property, plant and equipment and for future site restoration and abandonment are based on estimates of reserves and future costs. By their nature, these estimates and those related to the future cash flows used to assess impairment, are subject to measurement uncertainty and the impact on the financial statements of future years could be material.

Joint ventures Substantially all oil and natural gas exploration, development and production activities are conducted jointly with others and, accordingly, these financial statements reflect only Canadian Hunter's proportionate interest in such activities.

Inventories Inventories of materials and supplies are carried at the lower of cost and net replacement cost.

Deferred revenue and other liabilities Deferred revenue and other liabilities include payments received under natural gas pre-sale and transportation agreements and the provision for lease rental costs in excess of estimated sub-lease rentals.

Payments received for products not delivered until required in the future are deferred and are recorded as revenue when the products are delivered or the right to take delivery expires. Payments received in respect of the natural gas transportation agreement are recorded as revenue over the term of the contract.

Foreign exchange translation Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates in effect at the consolidated balance sheet dates. Non-monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at the respective transaction dates. Revenues and expenses are translated at the average rate of exchange during the month in which they are recognized. Exchange gains or losses are included in net income with the exception of unrealized exchange gains or losses on translation of long-term monetary liabilities which are deferred and amortized over the remaining terms of such liabilities on a straight-line basis.

Financial instruments Canadian Hunter periodically enters into financial instrument and commodity contracts to reduce its exposure to adverse changes in commodity prices, interest rates and foreign exchange rates. Costs and gains on hedge contracts are recognized in income in the same period as the hedged transactions are settled. Costs and gains associated with unwinding a hedged position, if material, would be amortized over the remaining life of the hedged transaction. As at December 31 1998 and 1997, no material financial instruments or commodity contracts were in place.

Canadian Hunter also maintains accounts receivable, accounts payable, accrued liabilities and long-term debt. The fair value of these financial items approximates their carrying amounts.

Income taxes The Company follows the liability method in accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change occurs.

Pension costs The Company has both a defined benefit and a defined contribution pension plan. For its defined benefit plan, Canadian Hunter uses the accrued benefit actuarial method prorated on length of service and best estimate assumptions to value benefit obligations. Adjustments arising from plan amendments, experience gains and losses, and changes in assumptions are amortized over various periods depending on the nature of the adjustment, ranging from the term of the employment contract to which the adjustments relate, to the estimated average remaining service lives of the related employee group. Current service costs are expensed in the year. Costs associated with the defined contribution plan are based upon specific amounts contributed on behalf of participating employees during the year.

Note 3	Pro-Forma Financial Statements

In order to facilitate interperiod comparisons, pro-forma consolidated financial statements have been included which reflect the effects of the Arrangement on a retroactive basis. These pro-forma consolidated financial statements have been prepared from the historical financial statements of the Division and are in accordance with Canadian generally accepted accounting principles but do not necessarily reflect the precise results that would have actually been achieved had the relevant transactions taken place at the dates assumed or that may be achieved in the future.

The pro-forma balance sheet as at December 31, 1997 gives effect to the following items as if they had occurred on that date:

a) The assumption of a note payable to Noranda Inc. of $125,000 (Note 6).

b) The allocation of tax pools and the relevant future income tax balance as if the Division had been a separate taxable entity.

The pro-forma consolidated statements of net incomes and cash flow give effect to the reorganization as if it had occurred at the beginning of each of those years respectively and accordingly reflect the following items:

a) The interest owing to Noranda Inc. on $125,000 of the long term debt assumed at a rate of 7 percent in both 1998 and 1997.

b) Elimination of payments of $720 (1997 – $3,547) under agreements now assumed by Noranda Inc.

c) A $20,719 (1997 – $19,308) provision for income taxes computed at the statutory rate of approximately 40 percent.

Pro-forma net income per share and cash flow per share have been calculated based upon the number of common shares outstanding following the Arrangement of 59,563,875.

Note 4	Property, Plant and Equipment

Property, plant and equipment consist of the following:

December 31	***1998***	1997
Oil and natural gas properties and related equipment	***$ 2,014,220***	$ 1,807,001
Midstream assets	***3,190***	–
Equipment and other	***38,228***	35,650
	2,055,638	1,842,651
Accumulated depletion and depreciation	***1,297,882***	1,181,682
Net book value	***$ 757,756***	$ 660,969

General and administrative expenses of $11,045 and $9,824 for the years ended December 31, 1998 and 1997 respectively were capitalized.

Note 5 Deferred Revenue and Other Liabilities

Deferred revenue and other liabilities consist of the following:

December 31	*1998*	1997
Prepaid natural gas contract	$ *26,635*	$ 32,097
Future site restoration	*27,057*	23,938
Natural gas transportation agreement	*14,094*	14,684
Provision for future lease costs	*6,891*	8,455
Other	*119*	242
	74,796	79,416
Less current portion	*3,476*	3,476
	$ *71,320*	$ 75,940

Prepaid natural gas contract In 1991, Noranda Inc. and Canadian Hunter entered into a natural gas pre-sale agreement with a co-generation facility in Syracuse, New York to supply 120 bcf of natural gas over a 16-year period. Canadian Hunter's share of this commitment was to supply 70 bcf of natural gas and in connection therewith a pre-payment equal to $59,105 was received. As at December 31, 1998, the remaining supply commitment totaled 75 bcf of natural gas of which 44 bcf is to be supplied directly by Canadian Hunter (December 31, 1997 – 85 bcf of which 50 bcf was to be supplied by Canadian Hunter). The remainder is to be supplied by a third party. Canadian Hunter is reimbursed for production costs, royalties, transportation and import/export taxes with respect to the gas delivered under this agreement.

Future site restoration Canadian Hunter estimates future site restoration and abandonment costs to be $60,231 at December 31, 1998 (December 31, 1997 – $54,195) of which $27,057 (December 31, 1997 – $23,938) has been accrued as a liability and $4,599 (1997 – $4,562) has been charged to income during the year.

Natural gas transportation agreement In October 1997, Canadian Hunter entered into a natural gas transportation agreement for the utilization of pipeline capacity of 19,438 Mmbtu/day for the term November 1, 1997 to October 31, 2023. In return, a payment of U.S. $10,500 was received which is being amortized into income over the term of the contract.

Provision for future lease costs The provision for future lease costs relates to the subleasing of eight floors of space within the Calgary head office. This provision, recorded in 1995, represents the difference between the original head lease rate and the estimated amounts recoverable under subleases during the remaining term of the head lease which expires in the year 2003. The provision is being drawn down over the term of the head lease.

Note 6 Long-Term Debt

December 31	*1998*	1997
Due to Noranda Inc.	$ *149,997*	$ 125,000

Canadian Hunter has arranged $225,000 of unsecured available lines of credit with two major Canadian banks. Drawings on these lines have a revolving term which may, at the Company's discretion, be converted into an amortizing term loan.

In accordance with the Arrangement, Canadian Hunter assumed a debt to Noranda Inc. of $125,000 plus the difference between cash flows and capital expenditures plus the reduction in future income tax liability for the last half of 1998 which resulted in an additional $24,997 of debt assumed on December 30, 1998. The December 31, 1997 pro forma balance sheet assumes $125,000 of debt as at that date.

At December 31, 1998, Canadian Hunter owed Noranda Inc. $149,997. The debt was unsecured. Subsequent to year end, Canadian Hunter fully repaid the debt owed to Noranda Inc. using the available credit facilities. Funds drawn on these facilities incurs interest at the current bankers acceptance rate.

Note 7 Shareholders' Equity

Net investment by Noranda Inc. in the Division – January 1, 1997	$ 673,650
Pro-forma net income	28,961
Less – Debt assumed by Canadian Hunter Exploration Ltd.	(125,000)
– Future income tax liability assumed by Canadian Hunter Exploration Ltd.	(158,842)
Assets transferred from Noranda Inc.	9,274
Pro-forma distribution to Noranda Inc.	(142,187)
Pro-forma capital employed by Canadian Hunter Exploration Ltd. – December 31, 1997	285,856
Pro-forma net income	26,686
Pro-forma investment by Noranda Inc.	48,659
Adjustment to future income tax liability due to change in allocated tax pools	11,316
Additional debt assumed by Canadian Hunter Exploration Ltd. on December 30, 1998	(24,997)
Converted to share capital – December 31, 1998 (post Arrangement)	$ 347,520

Share capital

AUTHORIZED

Unlimited number of preferred shares – issuable in series

Unlimited number of common shares

ISSUED

Pursuant to the Arrangement, on December 31, 1998, 59,563,875 common shares were issued to the shareholders of Noranda Inc. of record on December 24, 1998. Each Noranda Inc. shareholder received 0.25 common shares of Canadian Hunter for each share of Noranda Inc. owned.

Note 8 Pension Plan

Prior to the Arrangement the Division participated in Noranda Inc.'s defined benefit and defined contribution pension plans for salaried employees. Following the Arrangement, similar plans were established for Canadian Hunter and the going concern liabilities and pro rata assets associated with Canadian Hunter employees were transferred to the Canadian Hunter plans.

Summary information relating to these plans is as follows:

December 31		***1998***		1997
Obligations for pension benefits	$	***19,147***	$	20,707
Pension fund assets at market values		***16,105***		19,290
Excess of fund liabilities over assets		***3,042***		1,417
Net balance sheet liability		***119***		239
Excess of fund liabilities over net balance sheet liability and fund assets	$	***2,923***	$	1,178

The obligation for the defined benefit pension plan is determined through periodic actuarial reports that are based on projections of interest, employees' compensation levels, and length of service to the time of retirement.

Note 9 Restructuring Charges and Other Non-Recurring Items

The following is a breakdown of the restructuring charges and other non-recurring items:

Year ended December 31		***1998***		1997
Remuneration program (a)	$	***7,177***	$	3,668
Special payments under Noranda Inc. agreements (b)		***282***		–
Natural gas contract dispute settlement (c)		***(6,241)***		–
Restructuring costs (d)		***1,000***		1,143
Other		***–***		744
	$	***2,218***	$	5,555

(a) Payments to certain Canadian Hunter employees under a phantom stock option plan which ceased to exist as of the effective date of the Arrangement.

(b) Noranda Inc. has historically incurred annual payments to recipients under certain agreements. Following the Arrangement, Canadian Hunter has no liability for further payments under these agreements (note 3).

(c) A favourable one time settlement concerning past natural gas marketing contracts.

(d) Restructuring costs incurred by Canadian Hunter in 1998 and 1997.

Note 10 Pro-Forma Statements of Cash Flow

The net changes in non-cash working capital balances consist of the following:

Year Ended December 31	***1998***	1997
Cash provided by (used for)		
Accounts receivable	***$ 6,626***	$ 675
Inventory	***684***	(5,890)
Accounts payable and accrued liabilities	***6,902***	5,146
	$ 14,212	$ (69)

The change in non-cash working capital relates to the following activities:

Year Ended December 31	***1998***	1997
Operating	***$ 1,680***	$ (7,325)
Investing	***12,532***	7,256
	$ 14,212	$ (69)

Note 11 Commitments

Operating lease payments for each of the next five fiscal years are as follows:

1999	$ 4,840
2000	5,159
2001	5,515
2002	5,487
2003	1,379
Total	$ 22,380

Note 12 Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the Year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect Canadian Hunter's ability to conduct normal business operations. Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 issue on Canadian Hunter. It is not possible to be certain that all aspects of the Year 2000 issue affecting Canadian Hunter, including those related to the efforts of customers, suppliers of other third parties, will be fully resolved.

Land Holdings

As at December 31 (thousands of acres)	1998 Gross	1998 Net	1997 Gross	1997 Net	1996 Gross	1996 Net
Developed	*578*	*400*	770	565	767	538
Undeveloped	*1,791*	*1,313*	1,219	926	1,323	931
Total	*2,369*	*1,713*	1,989	1,491	2,090	1,469

Drilling Activity

(wells)	1998 Gross	1998 Net	1997 Gross	1997 Net	1996 Gross	1996 Net
Exploratory						
Natural Gas	*68*	*50.8*	38	29.3	14	11.8
Crude Oil	*1*	*0.4*	4	3.4	2	2.0
Dry	*19*	*12.7*	26	20.7	21	12.1
Total Exploratory	*88*	*63.9*	68	53.4	37	25.9
Development						
Natural Gas	*64*	*40.5*	60	36.0	40	26.8
Crude Oil	*5*	*2.7*	6	4.5	0	0.0
Dry	*12*	*5.4*	5	3.9	7	4.4
Total Development	*81*	*48.6*	71	44.4	47	31.2
Total Wells Drilled	*169*	*112.5*	139	97.8	84	57.1
Success Ratio						
Exploration	*78%*	*80%*	62%	61%	43%	53%
Development	*85%*	*89%*	93%	91%	85%	86%
Overall	*82%*	*84%*	78%	75%	67%	71%

Capital Expenditures

($ millions)	1998	1997	1996
Lease Acquisition and Rentals	*28.9*	34.6	19.0
Seismic	*4.6*	8.2	4.5
Drilling and Completion	*105.0*	82.8	40.4
Facilities and Gathering Systems	*46.2*	30.9	24.0
Capitalized General and Administrative	*11.1*	9.8	9.2
Total Exploration and Development Activity	*195.8*	166.3	97.1
Acquisitions	*14.6*	5.6	56.3
Dispositions	*(3.1)*	(146.0)	(55.8)
Midstream	*3.2*	–	–
Other	*2.5*	2.5	1.7
Total Capital	*213.0*	28.4	99.3

Reserves Reconciliation

	Natural Gas (bcf)			Crude Oil and NGLs (mmbbls)			Equivalent (bcfe)		
	Proven	50% Probable	Established	Proven	50% Probable	Established	Proven	50% Probable	Established
December 31, 1995	621	76	697	18.9	2.8	21.7	810	104	914
Discoveries and Extensions	108	–	108	1.4	–	1.4	122	–	122
Revisions of Prior Estimates	(3)	(3)	(6)	1.3	0.4	1.7	10	1	11
Purchases	70	18	88	1.2	0.2	1.4	82	20	102
Dispositions	(27)	–	(27)	(1.5)	(0.5)	(2.0)	(42)	(5)	(47)
Production	(93)	–	(93)	(3.0)	–	(3.0)	(123)	–	(123)
December 31, 1996	676	91	767	18.3	2.9	21.2	859	120	979
Discoveries and Extensions	170	11	181	1.8	0.2	2.0	188	13	201
Revisions of Prior Estimates	23	(4)	19	0.6	(0.4)	0.2	29	(8)	21
Purchases	4	–	4	–	–	–	4	–	4
Dispositions	(115)	(8)	(123)	(2.8)	(0.6)	(3.4)	(143)	(14)	(157)
Production	(100)	–	(100)	(2.9)	–	(2.9)	(129)	–	(129)
December 31, 1997	658	90	748	15.0	2.1	17.1	808	111	919
Discoveries and Extensions	164	5	169	3.2	0.3	3.5	196	8	204
Revisions of Prior Estimates	9	(8)	1	4.2	0.6	4.8	51	(2)	49
Purchases	8	–	8	0.1	–	0.1	9	–	9
Dispositions	(2)	–	(2)	–	–	–	(2)	–	(2)
Production	(105)	–	(105)	(3.0)	–	(3.0)	(135)	–	(135)
December 31, 1998	***732***	***87***	***819***	***19.5***	***3.0***	***22.5***	***927***	***117***	***1,044***

Proven Reserve Replacement

(bcfe)	***1998***	1997	1996
Reserves Added Through Exploration and Development	***247***	217	132
Net Reserves Added Through Acquisitions and Dispositions	***7***	(138)	40
Total Proven Reserves Added	***254***	79	172
Production	***135***	129	123
Exploration and Development (E&D) Reserve Replacement (%)	***183***	168	107
Overall Reserve Replacement (%)	***188***	61	139

Reserve Life Index (Proven Reserves)

(years at annual average production rate)	***1998***	1997	1996
Natural Gas	***7.0***	6.6	7.3
Crude Oil and Natural Gas Liquids	***6.5***	5.1	6.0
Natural Gas Equivalent	***6.9***	6.3	7.0

Finding and Development Costs

	1998	1997	1996
Exploration and Development Capital *($ millions)*	*195.8*	166.3	97.1
Proven Reserve Additions – E&D *(bcfe)*	*247*	217	132
Finding and Development Costs *($/mcfe)*	*0.79*	0.77	0.73
Capital Including Net Acquisitions *($ millions)*	*207.2*	25.9	97.6
Proven Reserve Additions Including Net Acquisitions *(bcfe)*	*254*	79	172
Replacement Costs *($/mcfe)*	*0.82*	0.33	0.57

Production

	1998	1997	1996
Natural Gas *(mmcf/d)*	*288*	272	254
Natural Gas Liquids *(bbls/d)*	*5,661*	5,080	4,715
Crude Oil *(bbls/d)*	*2,577*	2,997	3,548
Natural Gas Equivalent *(mmcfe/d)*	*370*	353	337

Unit Netbacks

	1998	1997	1996
Natural Gas *($/mcf)*			
Natural Gas Revenue	*2.07*	1.92	1.75
Royalties	*0.36*	0.33	0.25
Operating Costs	*0.29*	0.24	0.21
Operating Netback	*1.42*	1.35	1.29
Royalty Percentage	*17%*	17%	14%
Crude Oil and Natural Gas Liquids *($/bbl)*			
Liquids Revenue	*16.24*	23.67	21.40
Royalties	*2.51*	4.35	4.59
Operating Costs	*1.29*	1.70	1.41
Operating Netback	*12.44*	17.62	15.40
Royalty Percentage	*15%*	18%	21%
Natural Gas Equivalent *($/mcfe)*			
Revenue	*1.97*	2.02	1.85
Royalties	*0.33*	0.36	0.30
Operating Costs	*0.26*	0.22	0.19
Operating Netback	*1.38*	1.44	1.36
Expensed General and Administrative	*0.08*	0.07	0.09
Netback	*1.30*	1.37	1.27

Financial *(Pro-forma)*

Year ended December 31 ($ millions, except per share data)	***1998***	1997	1996
Gross Revenues	***266***	260	228
Cash Flow from Operations	***156***	161	142
Per Common Share *($)*	***2.62***	2.71	2.39
Net Income	***27***	29	17
Per Common Share *($)*	***0.45***	0.49	0.29
Net Capital Expenditures	***213***	28	99
Total Assets at Year End	***805***	715	783
Long-term Debt at Year End	***150***	125	125
Average Shares Outstanding *(thousands)*	***59,564***	59,564	59,564

canadian hunter: corporate information

Directors

Jack L. Cockwell [3]
President and Chief Executive Officer,
EdperBrascan Corporation
Toronto, Ontario

James K. Gray
Chairman of the Board
Canadian Hunter Exploration Ltd.
Calgary, Alberta

Robert J. Harding [1,2]
Chairman,
EdperBrascan Corporation
Toronto, Ontario

Brian G. Kenning [1]
Managing Partner and Chairman,
B.C. Pacific Capital Corporation
Vancouver, British Columbia

David W. Kerr [3]
President and Chief Executive Officer,
Noranda Inc.
Toronto, Ontario

The Honourable
E. Peter Lougheed P.C., C.C.,Q.C.[2]
Partner,
Bennett Jones
Calgary, Alberta

Clifford A. Rae, Q.C.[1,2]
Corporate Director
Calgary, Alberta

Stephen J. Savidant
President and Chief Executive Officer,
Canadian Hunter Exploration Ltd.
Calgary, Alberta

Stephen G. Snyder [3]
President and Chief Executive Officer,
Transalta Corporation
Calgary, Alberta

[1] Audit Committee

[2] Corporate Governance and Nominating Committee

[3] Human Resources and Compensation Committee

Environment, Health and Safety matters are addressed by the entire Board of Directors

Officers

Stephen J. Savidant
President and Chief Executive Officer

Michael E. Downey
Vice President, Exploration and Production and Chief Operating Officer

Murray R. Lueke
Vice President, Engineering

Stephen B. Soules
Vice President, Finance,
Chief Financial Officer and
Corporate Secretary

John S. Kowal
Treasurer

Stock Exchange Listing

Toronto Stock Exchange
Symbol: HTR

Transfer Agent

Montreal Trust Company of Canada
Calgary, Vancouver, Toronto, and Montreal

Auditors

Ernst & Young L.L.P.

Evaluation Engineers

Sproule Associates Ltd.

Head Office

Suite 2800, 605 – 5th Avenue S.W.
Calgary, Alberta, Canada
T2P 3H5
Telephone (403) 260-1000
Facsimile (403) 260-1180
Website:
http://www.canadianhunter.com

Investor Relations

Barb Stretch
Manager, Investor Relations
Telephone (403) 260-1715
or 1-888-397-1190
Facsimile (403) 260-1156
Email: investor.relations@chel.com

Abbreviations

bbl(s)	barrel(s)
bbls/d	barrels per day
mbbls	thousand barrels
mmbbls	million barrels
mcf	thousand cubic feet
mcfe	thousand cubic feet equivalent
mmcf	million cubic feet
mmbtu	millions of British thermal units
mmbtu/d	millions of British thermal units per day
mmcf/d	million cubic feet per day
bcf	billion cubic feet
bcfe	billion cubic feet equivalent (converted at 10 mcf:1 bbl)
mmcfe	million cubic feet equivalent (converted at 10 mcf:1bbl)
mcfe/d	thousand cubic feet equivalent per day (converted at 10 mcf:1bbl)

Created by Result Communications Ltd.
Printed in Canada